



*Management's Discussion and Analysis*  
**For the three and nine months ended September 30, 2014**

## *Forward-Looking Information*

The following Management's Discussion and Analysis (MD&A) highlights Inter Pipeline Ltd.'s (Inter Pipeline) significant business results and statistics for the three and nine month periods ended September 30, 2014, to provide Inter Pipeline's shareholders and potential investors with information about Inter Pipeline and its subsidiaries, including management's assessment of Inter Pipeline's and its subsidiaries' future plans and operations. This information may not be appropriate for other purposes. Effective September 1, 2013, Inter Pipeline completed an arrangement pursuant to which, among other things, the outstanding Class A units of Inter Pipeline Fund were converted into common shares of Inter Pipeline Ltd. This resulted in the conversion to a dividend paying corporation, Inter Pipeline Ltd., which continues as a successor issuer to Inter Pipeline Fund (Corporate Conversion). In this MD&A, any references to Inter Pipeline prior to September 1, 2013 refer to Inter Pipeline Fund and its consolidated subsidiaries, and any references to Inter Pipeline subsequent to September 1, 2013 refer to Inter Pipeline Ltd. and its consolidated subsidiaries. Similarly, any references to common shares, shareholders or dividends used prior to September 1, 2013, refer to Class A units, unitholders and distributions of Inter Pipeline Fund, and any references to common shares, shareholders or dividends used subsequent to September 1, 2013 refer to common shares, shareholders and dividends of Inter Pipeline Ltd. This MD&A contains certain forward-looking statements or information (collectively referred to as "forward-looking statements") within the meaning of applicable securities legislation. Forward-looking statements often contain terms such as "may", "will", "should", "anticipate", "expect", "continue", "estimate", "believe", "project", "forecast", "plan", "intend", "target" and similar words suggesting future outcomes or statements regarding an outlook. Any statements herein that are not statements of historical fact may be deemed to be forward-looking statements. Forward-looking statements in this MD&A include, but are not limited to, statements regarding: 1) Inter Pipeline's beliefs that it is well positioned to maintain its current level of dividends to its shareholders through 2014 and beyond; 2) the maintenance of Inter Pipeline's dividend level combined with the tax treatment of dividends to its shareholders; 3) Inter Pipeline being well positioned to operate and grow in the future; 4) cash flow projections; 5) timing for completion of various projects, including the expansion and integration of the Cold Lake and Polaris pipeline systems to provide transportation service to various oil sands projects; 6) timing and cost schedules of Polaris and Cold Lake capital projects, and forward EBITDA (as defined herein) estimates in respect of these projects; and, 7) capital forecasts.

Readers are cautioned not to place undue reliance on forward-looking statements; as such statements are not guarantees of future performance. Inter Pipeline in no manner represents that actual results, levels of activity and achievements will be the same in whole or in part as those set out in the forward-looking statements herein. Such information, although considered reasonable by Inter Pipeline may later prove to be incorrect and actual results may differ materially from those anticipated in the forward-looking statements. By their nature, forward-looking statements involve a variety of assumptions and are subject to various known and unknown risks, uncertainties and other factors, which are beyond Inter Pipeline's control, including, but not limited to: risks and assumptions associated with operations, such as Inter Pipeline's ability to successfully implement its strategic initiatives and achieve expected benefits, including the further development of its oil sands pipeline systems; assumptions concerning operational reliability; the availability and price of labour and construction materials; the status, credit risk and continued existence of customers having contracts with Inter Pipeline and its affiliates; availability of energy commodities; volatility of and assumptions regarding prices of energy commodities; competitive factors, pricing pressures and supply and demand in the natural gas and oil transportation, ethane transportation and natural gas liquids (NGL) extraction and storage industries; assumptions based upon Inter Pipeline's current guidance; fluctuations in currency and interest rates; inflation; the ability to access sufficient capital from internal and external sources; risks and uncertainties associated with Inter Pipeline's ability to maintain its current level of cash dividends to its shareholders; risks inherent in Inter Pipeline's Canadian and foreign operations; risks of war, hostilities, civil insurrection, instability and political and economic conditions in or affecting countries in which Inter Pipeline and its affiliates operate; severe weather conditions; terrorist threats; risks associated with technology; Inter Pipeline's ability to generate sufficient cash flow from operations to meet its current and future obligations; Inter Pipeline's ability to access external sources of debt and equity capital; general economic and business conditions; the potential delays of and costs of overruns on construction projects, including, but not limited to Inter Pipeline's current oil sands projects and future expansions of Inter Pipeline's oil sands pipeline systems; risks associated with the failure to finalize formal agreements with counterparties in circumstances where letters of intent or similar agreements have been executed and announced by Inter Pipeline; Inter Pipeline's ability to make capital investments and the amounts of capital investments; changes in laws and regulations, including environmental, regulatory and taxation laws, and the interpretation of such changes to laws and regulations; the risks associated with existing and potential future lawsuits and regulatory actions against Inter Pipeline and its affiliates; increases in maintenance, operating or financing costs; availability of adequate levels of insurance; difficulty in obtaining necessary regulatory approvals and maintenance of support of such approvals; and such other risks and uncertainties described from time to time in Inter Pipeline's reports and filings with the Canadian securities authorities. The impact of any one assumption, risk, uncertainty or other factor on a particular forward-looking statement is not determinable with certainty, as these are interdependent and Inter Pipeline's future course of action depends on management's assessment of all information available at the relevant time.

**Readers are cautioned that the foregoing list of important factors is not exhaustive. See also the section entitled RISK FACTORS for further risk factors. The forward-looking statements contained in this MD&A are made as of the date of this document and, except to the extent expressly required by applicable securities laws and regulations, Inter Pipeline assumes no obligation to update or revise forward-looking statements made herein or otherwise, whether as a result of new information, future events, or otherwise. The forward-looking statements contained in this document and all subsequent forward-looking statements, whether written or oral, attributable to Inter Pipeline or persons acting on Inter Pipeline's behalf are expressly qualified in their entirety by these cautionary statements.**

# Management's Discussion and Analysis

## For the three and nine month periods ended September 30, 2014

The MD&A provides a detailed explanation of Inter Pipeline's operating results for the three and nine month periods ended September 30, 2014, as compared to the three and nine month periods ended September 30, 2013. The MD&A should be read in conjunction with the September 30, 2014 unaudited condensed interim consolidated financial statements (interim financial statements), the unaudited condensed interim consolidated financial statements and MD&A for the three and nine month periods ended September 30, 2013, the MD&A and audited consolidated financial statements for the year ended December 31, 2013, the Annual Information Form dated February 20, 2014, and other information filed by Inter Pipeline at [www.sedar.com](http://www.sedar.com).

Financial information presented in this MD&A is based on information in Inter Pipeline's consolidated financial statements prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

This MD&A reports certain financial measures that are not recognized by Canadian generally accepted accounting principles (GAAP), as outlined in the Chartered Professional Accountant (CPA) Handbook Part I, and used by management to evaluate the performance of Inter Pipeline and its business segments. Since certain non-GAAP and additional GAAP financial measures may not have a standardized meaning, securities regulations require that non-GAAP and additional GAAP financial measures are clearly defined, qualified and reconciled with their nearest GAAP measure. See the **NON-GAAP AND ADDITIONAL GAAP FINANCIAL MEASURES** section for further information on the definition, calculation and reconciliation of non-GAAP and additional GAAP financial measures. All amounts are in Canadian dollars unless specified otherwise.

Management determines whether information presented in this MD&A is material based on whether it believes a reasonable investor's decision to buy, sell or hold securities in Inter Pipeline would likely be influenced or changed if the information was omitted or misstated.

	Page
THIRD QUARTER HIGHLIGHTS.....	4
PERFORMANCE OVERVIEW .....	5
OUTLOOK .....	7
RESULTS OF OPERATIONS .....	9
SUMMARY OF QUARTERLY RESULTS .....	21
LIQUIDITY AND CAPITAL RESOURCES .....	22
DIVIDENDS TO SHAREHOLDERS .....	28
OUTSTANDING SHARE DATA .....	29
RISK MANAGEMENT AND FINANCIAL INSTRUMENTS.....	29
TRANSACTIONS WITH RELATED PARTIES .....	31
CONTROLS AND PROCEDURES .....	31
CRITICAL ACCOUNTING ESTIMATES AND BASIS OF PRESENTATION.....	31
FUTURE ACCOUNTING PRONOUNCEMENTS.....	32
RISK FACTORS .....	32
NON-GAAP AND ADDITIONAL GAAP FINANCIAL MEASURES.....	32
ADDITIONAL INFORMATION.....	36

### **THIRD QUARTER HIGHLIGHTS**

- Generated record funds from operations\* (FFO) of \$141 million, a 14 percent increase over the third quarter of 2013
- Declared cash dividends of \$105 million or \$0.3225 per share
- Quarterly payout ratio\* of 77 percent
- Generated net income of \$95 million, a gain of \$17 million over third quarter 2013 results
- Incurred growth capital expenditures\* of \$242 million, primarily related to Inter Pipeline's \$2.9 billion expansion program on the Cold Lake and Polaris pipeline systems
- Total pipeline throughput volumes for the quarter averaged a record 1,144,900 barrels per day (b/d)
- Oil sands transportation volumes totaled 942,300 b/d, a quarterly record
- Conventional oil pipeline throughput volumes increased 6,600 b/d over third quarter 2013 levels to 202,600 b/d including record volumes on the Mid-Saskatchewan pipeline system
- Announced \$100 million expansion of Mid-Saskatchewan pipeline system to accommodate volume growth
- The first phase of the Polaris pipeline expansion was successfully completed on schedule at a cost of \$1.1 billion with a new 290 kilometre (km) mainline and associated pipeline laterals placed into commercial service
- Construction of the Canexus unit train rail loading connection to the Cold Lake pipeline system was completed on schedule and began generating revenue

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\* Please refer to the **NON-GAAP AND ADDITIONAL GAAP FINANCIAL MEASURES** section

## PERFORMANCE OVERVIEW

	Three Months Ended		Nine Months Ended	
	September 30		September 30	
<i>(millions, except per share and % amounts)</i>	2014	2013	2014	2013
Revenues				
Oil sands transportation	\$ 128.2	\$ 96.2	\$ 336.2	\$ 281.1
Conventional oil pipelines	89.6	81.1	276.8	219.9
NGL extraction	120.2	127.2	425.6	374.1
Bulk liquid storage	41.6	36.0	127.6	113.4
	\$ 379.6	\$ 340.5	\$ 1,166.2	\$ 988.5
Funds from operations <sup>(1)(2)</sup>				
Oil sands transportation <sup>(2)</sup>	\$ 82.5	\$ 55.7	\$ 208.9	\$ 155.5
Conventional oil pipelines	48.7	47.0	144.3	130.9
NGL extraction	34.4	43.2	117.6	117.3
Bulk liquid storage	19.8	17.2	59.6	57.1
Corporate costs	(44.4)	(39.8)	(126.1)	(122.7)
	\$ 141.0	\$ 123.3	\$ 404.3	\$ 338.1
Per share <sup>(1)</sup>	\$ 0.43	\$ 0.44	\$ 1.27	\$ 1.21
Net income (loss) <sup>(3)</sup>	\$ 95.0	\$ 77.8	\$ 269.9	\$ (131.6)
Net income (loss) attributable to shareholders <sup>(3)</sup>	\$ 91.4	\$ 74.8	\$ 259.2	\$ (139.4)
Per share – basic	\$ 0.28	\$ 0.27	\$ 0.81	\$ (0.50)
Per share – diluted	\$ 0.28	\$ 0.26	\$ 0.80	\$ (0.50)
Dividends to shareholders	\$ 104.7	\$ 84.6	\$ 308.2	\$ 239.6
Per share <sup>(4)</sup>	\$ 0.3225	\$ 0.2975	\$ 0.9675	\$ 0.8550
Shares outstanding (basic)				
Weighted average	324.2	283.6	318.3	279.6
End of period	325.4	289.8	325.4	289.8
Capital expenditures <sup>(5)</sup>				
Growth <sup>(1)</sup>	\$ 256.3	\$ 566.1	\$ 1,044.8	\$ 1,369.5
Sustaining <sup>(1)</sup>	12.0	7.4	28.4	19.1
	\$ 268.3	\$ 573.5	\$ 1,073.2	\$ 1,388.6
Payout ratio <sup>(1)</sup>	76.6%	70.5%	78.6%	72.8%
			As at	As at
			September 30	December 31
<i>(millions, except % amounts)</i>			2014	2013
Total assets			\$ 8,548.2	\$ 7,657.7
Total debt <sup>(6)</sup>			\$ 4,396.3	\$ 3,960.8
Total shareholders' equity			\$ 2,566.9	\$ 2,100.3
Enterprise value <sup>(1)</sup>			\$ 16,223.6	\$ 11,885.4
Total debt to total capitalization <sup>(1)</sup>			63.1%	65.3%
Total recourse debt to capitalization <sup>(1)</sup>			52.2%	52.8%

(1) Please refer to the **NON-GAAP AND ADDITIONAL GAAP FINANCIAL MEASURES** section.

(2) Funds from operations<sup>(1)</sup> include non-controlling interest amounts of \$4.3 million and \$12.4 million for the three and nine month periods ended September 30, 2014, respectively (\$3.3 million and \$8.9 million for the three and nine month periods ended September 30, 2013, respectively).

(3) In June 2013, Inter Pipeline completed several internal transactions related to the restructuring of its limited partnership structure to position the business for Corporate Conversion by indirectly purchasing its general partner, for initial consideration of \$170 million, plus closing adjustments of \$8.6 million, and a future second instalment of \$170 million.

(4) Dividends to shareholders are calculated based on the number of common shares outstanding at each record date.

(5) Amounts reported on a 100% basis that includes non-controlling interest.

(6) Total debt reported in the September 30, 2014 consolidated financial statements of \$4,377.0 million, includes long-term debt, short-term debt and commercial paper of \$4,396.3 million less discounts and debt transaction costs of \$19.3 million.

### **THREE MONTHS ENDED SEPTEMBER 30, 2014**

Inter Pipeline generated record quarterly financial results in the third quarter of 2014. FFO\* increased \$17.7 million or 14.4% from \$123.3 million in 2013 to \$141.0 million in 2014. This strong financial performance was led by the oil sands transportation business, where FFO\* increased to a new quarterly record of \$82.5 million, an increase of 48.1% or \$26.8 million. Higher operating results due to expanded transportation services on the Polaris and Cold Lake pipeline systems are the primary drivers for this increase. Operating results from the bulk liquid storage business increased \$2.6 million largely due to favourable foreign exchange, offset in part by lower utilization and storage rates. FFO\* from the conventional oil pipelines business increased \$1.7 million due to higher volumes transported and an incremental contribution from Inter Pipeline's midstream marketing activities. The NGL extraction business experienced a decrease in FFO\* of \$8.8 million, largely due to lower extracted NGL volumes and reduced frac-spread pricing. Corporate costs increased \$4.6 million largely due to higher interest expense.

Net income generated by Inter Pipeline increased \$17.2 million from \$77.8 million in the third quarter of 2013 to \$95.0 million in the third quarter of 2014. This is primarily due to the increase in FFO\* discussed above, as well as a favourable unrealized change in fair value of derivative financial instruments and gain on disposal of assets.

In the third quarter of 2014, total dividends to shareholders increased \$20.1 million or 23.8% to \$104.7 million, compared to the same period in 2013. The increase is due to higher monthly dividend rates and a greater overall number of shares outstanding. Dividend increases were announced by Inter Pipeline in June and September 2013 which totaled \$0.18 per common share on an annualized basis. Inter Pipeline's overall number of common shares outstanding increased largely as a result of equity offerings in October 2013 and March 2014, in addition to strong shareholder participation in Inter Pipeline's dividend reinvestment plan. Inter Pipeline's payout ratio for the three months ended September 30, 2014 was 76.6%.

Inter Pipeline's total consolidated debt was \$4,396.3 million at September 30, 2014, an increase of \$112.5 million from \$4,283.8 million at June 30, 2014. During this period Inter Pipeline expended \$253.4 million on capital projects.

### **NINE MONTHS ENDED SEPTEMBER 30, 2014**

Inter Pipeline also generated strong financial results in the nine months ended September 30, 2014. FFO\* increased 19.6% or \$66.2 million from \$338.1 million in 2013 to \$404.3 million in 2014. The increase in operating results is largely due to the same reasons discussed above. However, on a year to date basis FFO\* from the NGL extraction business increased slightly due to higher propane-plus volumes at the Cochrane facility. In addition, corporate costs were higher year to date in 2014 due to an increase in employee costs, offset in part by the elimination of management fees due to the Corporate Conversion in September 2013.

In the nine months ended September 30, 2014, Inter Pipeline recorded net income of \$269.9 million an increase of \$52.9 million over normalized net income of \$217.0 million from the same period in 2013 after excluding the one-time non-cash internalization cost of \$348.6 million, for the same reasons indicated above.

Total dividends to shareholders increased \$68.6 million or 28.6% to \$308.2 million in the nine months ended September 30, 2014, over the comparable period in 2013, for the same reasons mentioned above. For the nine months ended September 30, 2013, Inter Pipeline's payout ratio was 78.6%.

Inter Pipeline's consolidated debt increased \$435.5 million from \$3,960.8 million at December 31, 2013 to \$4,396.3 million at September 30, 2014, while \$1,024.0 million was funded by Inter Pipeline on capital expenditures. Inter Pipeline's total recourse debt to capitalization ratio at September 30, 2014 was 52.2%. At September 30, 2014, Inter Pipeline's total debt to total capitalization ratio was

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\* Please refer to the **NON-GAAP AND ADDITIONAL GAAP FINANCIAL MEASURES** section

63.1%, which includes non-recourse debt of \$1,593.7 million held within Inter Pipeline's Corridor corporate entity.

## **OUTLOOK**

Inter Pipeline's long-term strategy is to acquire and develop high-quality energy infrastructure assets that generate stable and predictable cash flow. Throughout 2014, our focus remains on the execution of major pipeline expansion programs extending across our oil sands and conventional oil pipeline systems. These large scale development programs are primarily underpinned by long-term contracts with credit-worthy counterparties. Inter Pipeline's portfolio of secured organic growth projects is expected to substantially increase cash flows and should support stable and growing returns to shareholders over the long-term. In addition, the current expansion programs are adding substantial transportation capacity beyond what is currently contracted that will competitively position Inter Pipeline to pursue future accretive growth opportunities in a capital-efficient manner.

The multi-billion dollar pipeline expansion program extends to both the oil sands transportation and conventional oil pipeline systems. Demand for transportation services has necessitated expansions of the Cold Lake and Polaris oil sands transportation systems, as well as the Mid-Saskatchewan conventional oil transportation system.

Expansion of oil sands transportation infrastructure represents the bulk of current capital expenditures. The expansions are the result of multiple major contracts signed over the past few years that have created a need for substantial new bitumen blend and diluent transportation services between the Cold Lake and Athabasca oil sands producing regions and market hubs in Edmonton and Hardisty, Alberta.

The oil sands transportation system expansion program is anchored primarily by long-term cost-of-service agreements with the FCCL Partnership (FCCL), a business venture between Cenovus Energy and ConocoPhillips, for a firm commitment of 500,000 b/d of bitumen blend and 350,000 b/d of diluent transportation capacity for its Foster Creek, Christina Lake and Narrows Lake oil sands projects. The agreement terms exceed 20 years. A number of other contracts signed over the past two years have brought total new contracted volume commitments to approximately 1.1 million b/d. To transport these additional volumes, Inter Pipeline is currently investing nearly \$3.1 billion (Inter Pipeline's share) to expand and integrate its Cold Lake and Polaris pipeline systems. Once this expansion program is complete, long term annual EBITDA\* from these contracts is expected to increase by approximately 60% over 2013 levels. The cost-of-service agreements supporting this cash flow have no exposure to volume or commodity price fluctuation.

Construction of the Cold Lake and Polaris expansions is substantially complete, with the majority of costs incurred. In July 2014, the first phase of the Polaris expansion, a 290 km, 30-inch diameter mainline segment connecting the Lamont pump station to FCCL's Foster Creek and Christina Lake production facilities entered commercial service. The successfully completed segment, representing approximately \$1.1 billion of the Polaris system's \$1.4 billion estimated total expansion cost, increased throughput capacity by 700,000 b/d. Remaining Polaris segments, including a diluent connection to the Narrows Lake production site, are expected to be completed on schedule in phases between late 2014 and mid 2017.

Total diluent transportation capacity on the Polaris system is now approximately 820,000 b/d. Capacity on the Cold Lake system will increase by 550,000 b/d to approximately 1.2 million b/d once Cold Lake expansion components are in service. Ultimate throughput capacities of 1.2 million b/d and 1.9 million b/d on the Polaris and Cold Lake systems, respectively, can be achieved through the addition of pump stations and associated infrastructure. Inter Pipeline continues to aggressively pursue opportunities to utilize this excess capacity.

In the conventional oil pipelines segment, Inter Pipeline is in the midst of a \$100 million expansion of the Mid-Saskatchewan pipeline system. New connections and pipeline twinning projects are being

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\* Please refer to the **NON-GAAP AND ADDITIONAL GAAP FINANCIAL MEASURES** section

constructed as a direct result of growing demand for transportation services as new technology drives strong drilling activity and increased recoveries from established oil fields in the Kindersley-Kerrobert areas of Saskatchewan which is serviced by Inter Pipeline's Mid-Saskatchewan pipeline system. The 2014 capital program will involve construction of 50 km of new mainline pipe segments, 40 km of new pipeline laterals, and all associated facilities. In total, the \$100 million capital investment is expected to generate \$25-\$30 million in incremental annual EBITDA once in service by mid-2015.

In the third quarter, construction progressed on a \$9 million expansion at Inter Pipeline's terminal located near Mannheim, Germany. Six new tanks with total capacity of 57,000 barrels are being constructed in response to strong demand for specialty chemical storage service from customers including the adjacent BASF Ludwigshafen plant, one of the largest chemical production complexes in the world.

Inter Pipeline's Danish subsidiary showed continued improvement during the quarter with contract renewals for 900,000 barrels of storage and new contracts for 460,000 barrels of presently idle capacity. In addition, the Danish subsidiary secured a new 190,000 barrel contract for the storage of wastewater as a first step towards diversifying the product capability of the existing capacity at Gulfhavn. Subsequent to quarter end, a new contract for a further 800,000 barrels of middle distillate storage was received at Gulfhavn.

Inter Pipeline continues to prudently manage its balance sheet while financing the large capital investment program currently in progress. During the quarter, Inter Pipeline suspended the premium component of its dividend reinvestment program and reduced the discount rate for shares purchased through dividend reinvestment. These measures reflect Inter Pipeline's confidence that existing financing plans are adequate to fund the current capital expenditure program. Inter Pipeline maintains financial flexibility with strong access to capital markets that may be accessed as required to fund future initiatives.

Inter Pipeline maintains investment grade credit ratings from major rating institutions. Standard & Poor's (S&P) and DBRS Limited (DBRS) have assigned Inter Pipeline credit ratings of BBB+ and BBB (high), respectively, each with a stable trend. Inter Pipeline (Corridor) Inc. (Corridor) has been assigned investment grade credit ratings of A (stable outlook) from S&P and DBRS and A2 (stable outlook) from Moody's Investors Service (Moody's).

Inter Pipeline's outlook remains positive as we continue to develop and expand our long-life, high-quality energy infrastructure asset base. We remain well positioned to continue generating strong returns to shareholders.

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\* Please refer to the **NON-GAAP AND ADDITIONAL GAAP FINANCIAL MEASURES** section

## RESULTS OF OPERATIONS

### OIL SANDS TRANSPORTATION BUSINESS SEGMENT

<i>Volumes (000s b/d)</i>	Three Months Ended			Nine Months Ended		
	September 30			September 30		
	2014	2013	% change	2014	2013	% change
Cold Lake (100% basis)	498.5	458.5	8.7	489.9	485.4	0.9
Corridor	382.6	354.3	8.0	344.1	337.0	2.1
Polaris	61.2	20.1	204.5	41.5	8.0	418.8
	942.3	832.9	13.1	875.5	830.4	5.4
<i>(millions)</i>						
Revenue <sup>(1)</sup>	\$ 128.2	\$ 96.2	33.3	\$ 336.2	\$ 281.1	19.6
Operating expenses <sup>(1)</sup>	\$ 31.4	\$ 27.5	14.2	\$ 88.8	\$ 86.2	3.0
Funds from operations <sup>(1)(2)</sup>	\$ 82.5	\$ 55.7	48.1	\$ 208.9	\$ 155.5	34.3
Capital expenditures <sup>(1)</sup>						
Growth <sup>(2)</sup>	\$ 239.8	\$ 554.9		\$ 1,004.7	\$ 1,318.7	
Sustaining <sup>(2)</sup>	0.3	0.6		0.6	1.4	
	\$ 240.1	\$ 555.5		\$ 1,005.3	\$ 1,320.1	

(1) For the three and nine month periods ended September 30, 2014, Cold Lake pipeline system includes the following amounts relating to non-controlling interest: revenue - \$6.5 million and \$19.3 million (\$5.4 million and \$15.3 million in 2013), respectively; operating expenses - \$2.2 million and \$6.9 million (\$2.1 million and \$6.4 in 2013), respectively; FFO<sup>(2)</sup> - \$4.3 million and \$12.3 million (\$3.3 million and \$8.9 million in 2013), respectively; and capital expenditures - \$14.9 million and \$49.2 million (\$2.4 million and \$6.0 million in 2013), respectively.

(2) Please refer to the **NON-GAAP AND ADDITIONAL GAAP FINANCIAL MEASURES** section.

#### Volumes

Volume in the oil sands transportation business averaged 942,300 b/d in the third quarter, an increase of 109,400 b/d or 13.1%, and 875,500 b/d year to date in 2014, an increase of 45,100 b/d or 5.4%, over the comparable periods in 2013.

The Cold Lake pipeline system is a bitumen blend and diluent pipeline system that transports diluted bitumen from the Cold Lake oil sands area of Alberta to delivery points in Hardisty and Edmonton, Alberta. In the three and nine months ended September 30, 2014, Cold Lake pipeline system volumes increased 40,000 b/d or 8.7% and 4,500 b/d or 0.9%, respectively, over the same periods in 2013. Volumes were lower in the third quarter of 2013 as a result of producer facility maintenance activities and operational issues. Volumes on the Cold Lake pipeline system typically fluctuate with the timing of steam injection cycles associated with certain shippers' production processes. Volume growth is anticipated on the Cold Lake pipeline system over the long-term, which is consistent with shippers' published forecasts.

The Corridor pipeline system transports diluent and diluted bitumen produced from the Muskeg River and Jackpine mines near Fort McMurray, Alberta to and from the Scotford upgrader located northeast of Edmonton as well as feedstock and upgraded products between the Scotford upgrader and certain pipeline terminals in Edmonton. Average volumes on the Corridor pipeline system increased 28,300 b/d or 8.0% in the third quarter and 7,100 b/d or 2.1% year to date in 2014, compared to the same periods in 2013, due to increased production levels from the Muskeg River and Jackpine mines.

The Polaris pipeline system began providing diluent transportation services in June 2013, from the Lamont area northeast of Edmonton to Imperial's Kearl oil sands project and to Suncor's oil sands facilities, both located northeast of Fort McMurray. In July 2014, Inter Pipeline completed a major component of the \$1.4 billion Polaris pipeline system expansion which now provides diluent transportation service from the Lamont area to FCCL's Foster Creek and Christina Lake production facilities and Canadian Natural Resources (CNR) Kirby South production facility. As a result, average volumes transported on the Polaris pipeline system increased 41,100 b/d and 33,500 b/d, in the three and nine months ended September 30, 2014, respectively, due to the timing of diluent transportation services commencing in 2013 and 2014.

## Revenue

Revenue from the oil sands transportation business increased \$32.0 million to \$128.2 million in the third quarter and \$55.1 million to \$336.2 million year to date in 2014, over the comparable periods in 2013.

Revenue from the Cold Lake pipeline system increased in the three and nine months ended September 30, 2014, by \$6.4 million to \$43.2 million and \$26.3 million to \$129.2 million, respectively, over the same periods in 2013. These increases are largely due to capital fee revenue associated with transportation services for the CNR Kirby South oil sands project, which began in August 2013, and the Canexus unit train loading connection which began in July 2014. Revenue also increased in both periods due to higher operating cost recoveries.

The Cold Lake Transportation Services Agreement (Cold Lake TSA) provides for a structured return on capital invested including a defined capital fee that is applied to volumes transported through the pipelines and facilities that comprise the Cold Lake pipeline system, and a recovery of substantially all operating costs. The founding shippers have committed to utilizing these pipelines and paying for such usage over the term of the Cold Lake TSA which extends indefinitely subject to certain provisions in the agreement. Additional returns on capital invested and recovery of associated operating costs are also earned with respect to other agreements between Cold Lake and shippers utilizing the Cold Lake pipeline system.

Corridor pipeline system revenue decreased \$0.1 million to \$43.5 million in the third quarter, compared to the same period in 2013, due to the declining nature of Corridor's rate base and a lower return on equity due to a decrease in the long-term Government of Canada (GOC) benchmark bond interest rate. Year to date in 2014, revenue increased \$0.3 million to \$128.7 million, over the same period in 2013, due to a higher return on equity and increased operating cost recoveries, which were partially offset by the declining nature of Corridor's rate base.

The Corridor Firm Service Agreement (Corridor FSA) utilizes a rate base cost-of-service approach to establish a revenue requirement which provides for recovery of all debt financing costs, operating costs, rate base depreciation and taxes, in addition to providing a return on equity. As a result of this cost-of-service approach, Corridor's FFO is not impacted by throughput volumes or commodity price fluctuations. The main drivers of any potential variation in Corridor's FFO are changes to the long-term GOC bond rate upon which the annual return on equity is determined, and changes to Corridor's rate base.

Revenue from the Polaris pipeline system increased \$25.7 million to \$41.5 million in the third quarter and \$28.5 million to \$78.3 million year to date in 2014, over the comparable periods in 2013. The increases in revenue are primarily due to timing of diluent transportation service for FCCL, which began in the third quarter of 2014. Revenue also increased due to capital fee revenue related to Husky's Sunrise oil sands project which started in the fourth quarter of 2013 and the Canexus unit train loading connection which began in July of 2014. Increased operating cost recoveries also resulted in higher revenue in the current quarter, however on a year to date basis lower operating costs and related recoveries partially offset the aforementioned revenue increase.

In the third quarter, the Polaris pipeline system generated revenue under long-term diluent transportation agreements with FCCL, Imperial Oil, Suncor, CNR, Husky and Canexus, utilizing a cost-of-service contracting framework, which provides for a return on capital invested and recovery of all operating costs. Throughput volumes below the ship-or-pay commitments or commodity price fluctuations do not impact Polaris' FFO as a result of the cost-of-service approach.

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\* Please refer to the **NON-GAAP AND ADDITIONAL GAAP FINANCIAL MEASURES** section

## **Operating Expenses**

In the oil sands transportation business segment, operating expenses typically have a limited impact on Inter Pipeline's FFO\*. On the Cold Lake and Corridor pipeline systems, substantially all operating expenditures are recovered from the shippers, while on the Polaris pipeline system there is full recovery of these costs. Operating expenses in the oil sands transportation business increased \$3.9 million to \$31.4 million in the third quarter and \$2.6 million to \$88.8 million year to date in 2014, compared to the same periods in 2013.

Cold Lake pipeline operating expenses increased \$1.5 million and \$4.0 million in the three and nine months ended September 30, 2014, respectively, over the same periods in 2013. Operating expenses increased largely due to higher employee, maintenance and subsidence repair costs, as well as increased property taxes. Power costs were also higher in the current quarter due to increased consumption and transportation costs, which were somewhat offset by lower power pricing. On a year to date basis power costs decreased as lower power pricing more than offset higher consumption and transportation costs.

Operating expenses on the Corridor pipeline system increased \$1.1 million in the current quarter and \$2.4 million year to date in 2014, compared to the same periods in 2013. These increases were primarily due to higher employee and general operating costs.

Operating expenses on the Polaris pipeline system increased \$1.3 million in the third quarter of 2014, over the comparable period in 2013, due to higher employee and general operating costs related to expanded operations. Operating expenses on a year to date basis decreased \$3.8 million in 2014, compared to 2013, as 2013 included certain recoverable construction related expenditures, which were partially offset by higher employee and general operating costs in 2014.

## **Capital Expenditures**

In the third quarter of 2014, total growth capital expenditures\* on the Cold Lake pipeline system were \$108.5 million, which primarily relate to Cold Lake pipeline's \$1.5 billion (Inter Pipeline's share) oil sands development program to provide transportation services to existing FCCL projects. These expenditures include engineering, design, procurement and construction activities.

The Cold Lake pipeline system and the Polaris pipeline system incurred additional growth capital expenditures\* of \$2.0 million and \$3.5 million in the third quarter of 2014, respectively, related to construction for bitumen blend transportation services to Canexus' unit train rail loading facility near Bruderheim, Alberta. During the quarter, Inter Pipeline completed construction of the 13 km, 24-inch diameter pipeline lateral and associated metering facility to transport bitumen blend from Inter Pipeline's Cold Lake system to a Canexus owned pipeline via the Polaris pump station near Lamont, Alberta, for a total cost of approximately \$60 million (Inter Pipeline's share).

The Polaris pipeline system incurred total growth capital expenditures\* of \$130.7 million in the third quarter of 2014, of which \$119.5 million relates to its \$1.4 billion development plan, for a total of approximately \$1,268.1 million spent to date. During the current quarter, Inter Pipeline announced that a major component of the Polaris pipeline system expansion was completed and placed into commercial service. A 290 km 30-inch diameter mainline segment connecting the Lamont pump station to FCCL's Foster Creek and Christina Lake production facilities was completed and entered commercial service in July 2014. The successfully completed segment, representing approximately \$1.1 billion of the Polaris pipeline system's \$1.4 billion estimated total expansion cost, increased throughput capacity by 700,000 b/d. The remaining Polaris pipeline expansion including a diluent connection to the Narrows Lake production site is expected to be completed on schedule in phases between late 2014 and mid 2017.

Polaris pipeline system growth capital expenditures\* also included \$3.3 million in the current quarter for a total of \$6.1 million spent to date related to engineering and construction for a new delivery connection to Athabasca Oil Corporation's Hangingstone project, for a total cost of approximately \$29 million.

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\* Please refer to the **NON-GAAP AND ADDITIONAL GAAP FINANCIAL MEASURES** section



## Midstream Product Purchases

In the three and nine months ended September 30, 2014, midstream product purchases increased \$3.3 million and \$29.8 million, respectively, compared to the same periods in 2013, coinciding with the rise in volume on the conventional oil pipelines system.

## Operating Expenses

Operating expenses in the conventional oil pipelines business increased \$3.0 million in the third quarter and \$13.1 million year to date in 2014, compared to the same periods in 2013. These increases are largely due to a one-time event related to a remediation project, incremental trucking costs from the midstream marketing business, higher integrity, variable operating and employee costs. The majority of these increases are in direct response to Inter Pipeline's commitment to operate in a safe and reliable manner. Year to date in 2014, operating expenses also increased by \$2.0 million, due to over/short volumes being recorded on a gross basis within both revenues and expenses due to expanded midstream marketing activities, rather than on a net basis within revenues.

## Capital Expenditures

Growth capital expenditures\* were \$12.7 million in the conventional oil pipelines business. Of this total, \$8.7 million relates to the previously announced \$100 million expansion of the Mid-Saskatchewan pipeline system, for a total of \$14.8 million spent to date. The expansion involves the construction of over 50 km of new mainline pipe, 40 km of new pipeline laterals and associated pumping and metering facilities. The remaining expenditures relate to various other facility upgrades and third party connections.

## NGL EXTRACTION BUSINESS SEGMENT

								Three Months Ended September 30								
								2014		2013						
<i>mmcf/d</i>				<i>(000s b/d)</i>				<i>mmcf/d</i>				<i>(000s b/d)</i>				
Facility	Throughput	Ethane	Propane- plus	Total	Throughput	Ethane	Propane- plus	Total	Throughput	Ethane	Propane- plus	Total	Throughput	Ethane	Propane- plus	Total
Cochrane	1,324	34.0	23.3	57.3	1,717	44.6	24.1	68.7								
Empress V (100% basis)	743	14.2	9.7	23.9	878	24.4	10.6	35.0								
Empress II	-	-	-	-	279	6.3	3.5	9.8								
	2,067	48.2	33.0	81.2	2,874	75.3	38.2	113.5								

								Nine Months Ended September 30								
								2014		2013						
<i>mmcf/d</i>				<i>(000s b/d)</i>				<i>mmcf/d</i>				<i>(000s b/d)</i>				
Facility	Throughput	Ethane	Propane- plus	Total	Throughput	Ethane	Propane- plus	Total	Throughput	Ethane	Propane- plus	Total	Throughput	Ethane	Propane- plus	Total
Cochrane	1,479	40.2	23.4	63.6	1,615	45.2	22.1	67.3								
Empress V (100% basis)	905	21.4	10.7	32.1	874	24.2	10.6	34.8								
Empress II	-	-	-	-	179	4.0	2.3	6.3								
	2,384	61.6	34.1	95.7	2,668	73.4	35.0	108.4								

\* Please refer to the **NON-GAAP AND ADDITIONAL GAAP FINANCIAL MEASURES** section

(millions)	Three Months Ended			Nine Months Ended		
	2014	2013	% change	2014	2013	% change
Revenue <sup>(1)</sup>	\$ 120.2	\$ 127.2	(5.5)	\$ 425.6	\$ 374.1	13.8
Shrinkage gas <sup>(1)</sup>	\$ 59.1	\$ 54.4	8.6	\$ 225.7	\$ 167.6	34.7
Operating expenses <sup>(1)</sup>	\$ 27.0	\$ 29.8	(9.4)	\$ 82.5	\$ 89.1	(7.4)
Funds from operations <sup>(1)(2)</sup>	\$ 34.4	\$ 43.2	(20.4)	\$ 117.6	\$ 117.3	0.3
Capital expenditures <sup>(1)</sup>						
Growth <sup>(2)</sup>	\$ 1.3	\$ 5.6		\$ 5.0	\$ 27.8	
Sustaining <sup>(2)</sup>	1.3	0.9		3.1	2.4	
	\$ 2.6	\$ 6.5		\$ 8.1	\$ 30.2	

(1) Revenue, shrinkage gas, operating expenses, FFO<sup>(2)</sup> and capital expenditures for the Empress V NGL extraction facility are recorded based on Inter Pipeline's 50% ownership.

(2) Please refer to the **NON-GAAP AND ADDITIONAL GAAP FINANCIAL MEASURES** section.

## Volumes

Average natural gas throughput volumes processed by Inter Pipeline's NGL extraction facilities decreased 807 million cubic feet per day (mmcf/d) to 2,067 mmcf/d in the third quarter and 284 mmcf/d to 2,384 mmcf/d year to date in 2014, compared to the same periods in 2013.

At the Cochrane facility, throughput volumes declined 393 mmcf/d and 136 mmcf/d in the three and nine months ended September 30, 2014, respectively, compared to the same periods in 2013. Cochrane throughput volumes are largely impacted by, and fluctuate with, demand for Canadian natural gas in the US west-coast region. Ethane production was reduced at the Cochrane NGL and Empress V extraction facilities in response to unexpected operational issues at a key petrochemical customer's facility. Ethane production was further impacted in the quarter by maintenance activities on a downstream third party ethane pipeline system.

Average throughput volumes at the Empress V facility decreased 135 mmcf/d in the third quarter and increased 31 mmcf/d year to date in 2014, compared to the same periods in 2013. The Empress II facility had no throughput volumes in 2014, compared to 279 mmcf/d and 179 mmcf/d for the three and nine months ended September 30, 2013, respectively. Throughput volumes at the Empress facilities are dependent on the level of natural gas exported from Alberta's eastern border and are reliant on successfully attracting border gas flows to the extraction facilities. Throughput volumes at the Empress V facility were also impacted in the third quarter of 2014 by an unplanned 16 day full plant maintenance outage. Empress II throughput volumes do not impact operating results due to the cost-of-service commercial arrangements at this facility.

## Revenue

The NGL extraction business earns revenue from a combination of commodity-based, fee-based and cost-of-service arrangements. Commodity-based contracts provide for a sharing of profits from the sale of NGL products between the NGL extraction business and the purchaser. The profit share calculation consists of revenue from the sale of NGL products less costs to bring the NGL product to market, including extraction, shrinkage gas, fractionation and marketing costs. Commodity-based contracts are exposed to frac-spread and volume risks. Fee-based contracts provide a fixed fee associated with each barrel of NGL produced and recovery of operating costs, including shrinkage gas costs. There is no commodity price exposure associated with this type of contract; however, fee-based contracts are exposed to volume fluctuations. Cost-of-service contracts provide a structured return on capital invested utilizing a rate base approach and a recovery of operating costs, including shrinkage gas. This form of contract provides the most stable cash flow of the three contract types, as there is minimal volume risk and no commodity price exposure.

Revenue from the NGL extraction business decreased \$7.0 million in the third quarter of 2014 due to several factors including reduced NGL production as a result of lower natural gas throughput levels at the Cochrane and Empress V facilities and lower ethane product pricing, offset in part by higher propane plus prices, compared to the same period in 2013.

Year to date in 2014, revenue increased \$51.5 million, over the comparable period in 2013, due to higher propane-plus pricing, higher ethane pricing at Empress V and increased propane-plus volumes at the Cochrane facility, partially offset by lower ethane volumes at the Cochrane and Empress V facilities. Volumes were negatively affected in 2013 as a result of a full plant turnaround at Cochrane and Alberta flood related restrictions.

## Frac-spread

(dollars)	Three Months Ended			
	September 30			
	2014		2013	
	USD/USG <sup>(1)</sup>	CAD/USG <sup>(1)</sup>	USD/USG <sup>(1)</sup>	CAD/USG <sup>(1)</sup>
Market frac-spread	\$ 0.799	\$ 0.871	\$ 0.968	\$ 1.005
Realized frac-spread	\$ 0.800	\$ 0.872	\$ 0.971	\$ 1.008

(dollars)	Nine Months Ended			
	September 30			
	2014		2013	
	USD/USG <sup>(1)</sup>	CAD/USG <sup>(1)</sup>	USD/USG <sup>(1)</sup>	CAD/USG <sup>(1)</sup>
Market frac-spread	\$ 0.870	\$ 0.952	\$ 0.895	\$ 0.920
Realized frac-spread	\$ 0.840	\$ 0.920	\$ 0.929	\$ 0.954

(1) The differential between USD/USG and CAD/USG frac-spreads is due to fluctuations in exchange rates between US and Canadian dollars.

Market frac-spread is defined as the difference between the weighted average propane-plus price at Mont Belvieu, Texas and the monthly index price of AECO natural gas purchased for shrinkage calculated in US dollars per US gallon (USD/USG). This price is converted to Canadian dollars per US gallon (CAD/USG) based on the average monthly Bank of Canada CAD/USD noon rate. Realized frac-spread is defined in a similar manner and is calculated on a weighted average basis using market frac-spread for unhedged production and fixed-price frac-spread prices for any hedged production. Natural gas purchased for shrinkage is based on the actual combination of the monthly index and daily price of AECO paid. Propane-plus market price differentials, natural gas transportation and extraction premium costs have not been significant historically, and therefore are not included in the calculation of realized frac-spread. See the **RISK MANAGEMENT AND FINANCIAL INSTRUMENTS** section for further discussion of frac-spread hedges.

Realized frac-spreads decreased from \$0.97 USD/USG to \$0.80 USD/USG in the third quarter and from \$0.93 USD/USG to \$0.84 USD/USG year to date in 2014, compared to the same periods in 2013. The 5-year and 15-year simple average market frac-spreads, as at December 31, 2013, were \$0.93 USD/USG and \$0.55 USD/USG, respectively.

## Shrinkage Gas

Shrinkage gas represents natural gas bought by Inter Pipeline to replace the heat content of liquids extracted from natural gas processed at the extraction facilities. The price for shrinkage gas is based on a combination of daily and monthly index AECO natural gas prices. Shrinkage gas expense increased \$4.7 million in the third quarter and \$58.1 million year to date in 2014, compared to the same periods in 2013. Higher AECO natural gas price was the primary driver for the increase in both periods, which was partially offset by lower ethane production from Cochrane and Empress V. Propane-plus volumes at the Cochrane facility decreased in the third quarter also reducing shrinkage gas expense, however, increased year to date in 2014 adding to higher shrinkage gas expense, compared to the same periods in 2013. Weighted average monthly AECO prices\* increased in the third quarter from \$2.68 per gigajoule (GJ) in 2013 to \$4.00/GJ in 2014 and year to date from \$3.00/GJ in 2013 to \$4.32/GJ in 2014.

\* Weighted average price calculated from one-month spot prices at AECO as reported in the *Canadian Gas Price Reporter*.

## Operating Expenses

Operating expenses in the three and nine months ended September 30, 2014 decreased \$2.8 million and \$6.6 million, respectively, over the comparable periods in 2013. These decreases are primarily due to lower fuel and power costs, as well as lower general operating and maintenance costs, which were higher in 2013 as a result of a full plant maintenance outage at the Cochrane facility. Fuel and power costs were also lower in both periods due to lower power pricing and consumption. Average Alberta power pool prices decreased in the third quarter from \$83.62/MWh in 2013 to \$64.34/MWh in 2014 and year to date from \$90.84/MWh in 2013 to \$55.80/MWh in 2014.

## Capital Expenditures

The NGL extraction business incurred growth capital expenditures\* of \$1.3 million in the third quarter of 2014, primarily on equipment upgrades at the Cochrane facility.

## BULK LIQUID STORAGE BUSINESS SEGMENT

(millions)	Three Months Ended September 30			Nine Months Ended September 30		
	2014	2013	% change	2014	2013	% change
Revenue	\$ 41.6	\$ 36.0	15.6	\$ 127.6	\$ 113.4	12.5
Operating expenses	\$ 17.8	\$ 16.0	11.3	\$ 54.5	\$ 48.3	12.8
Funds from operations <sup>(1)</sup>	\$ 19.8	\$ 17.2	15.1	\$ 59.6	\$ 57.1	4.4
Capital expenditures						
Growth <sup>(1)</sup>	\$ 2.5	\$ 3.2		\$ 7.8	\$ 16.9	
Sustaining <sup>(1)</sup>	5.9	2.6		15.8	6.6	
	\$ 8.4	\$ 5.8		\$ 23.6	\$ 23.5	

(1) Please refer to the **NON-GAAP AND ADDITIONAL GAAP FINANCIAL MEASURES** section.

## Utilization

	Three Months Ended September 30			Nine Months Ended September 30		
	2014	2013	% change	2014	2013	% change
Simon Storage	88%	91%	(3.3)	90%	90%	-
Inter Terminals	71%	75%	(5.3)	68%	79%	(13.9)
Combined	78%	82%	(4.9)	77%	84%	(8.3)

Inter Pipeline operates a bulk liquid storage business segment through two wholly owned subsidiaries, Simon Storage Limited (Simon Storage) and Inter Terminals Denmark A/S (Inter Terminals). Simon Storage owns and operates six bulk liquid storage terminals located in the United Kingdom (UK) and Ireland, and two inland terminals located on the Rhine River in Germany, with a combined liquid storage capacity of approximately 8.1 million barrels. Inter Terminals owns and operates four coastal bulk liquid storage terminals located in Denmark, with a combined storage capacity of approximately 11.2 million barrels.

Combined average utilization rates for the three and nine months ended September 30, 2014, decreased from 82% to 78% and from 84% to 77%, respectively, compared to the same periods in 2013. The absence of strong contango in certain petroleum product futures markets negatively impacted demand for bulk liquid storage particularly at the Gulfhavn terminal in Denmark. Despite the challenging market, Inter Terminals has recently secured a long-term and two short-term contracts at the Gulfhavn terminal comprising approximately 35% of its total capacity.

\* Please refer to the **NON-GAAP AND ADDITIONAL GAAP FINANCIAL MEASURES** section

## Revenue

The business activities of Simon Storage and Inter Terminals consist primarily of bulk liquid storage, handling and blending services that are underpinned by a range of long-term and short-term fee-based contracts. Simon Storage also offers a range of ancillary services to its customers.

Bulk liquid storage revenue increased \$5.6 million and \$14.2 million in the three and nine months ended September 30, 2014, respectively, over the comparable periods in 2013. Foreign currency translation favourably impacted revenue by \$3.3 million in the third quarter and \$14.6 million year to date in 2014, compared to the same periods in 2013. Revenue from the Simon Storage business increased \$2.6 million in the current quarter and \$8.2 million year to date in 2014 largely due to business interruption proceeds from flooding that occurred at the Immingham and Riverside terminals in December 2013. Revenue for 2014 also benefitted from a contract termination fee at the Immingham terminal which occurred earlier in the year. These increases in revenue were partially offset by lower revenue from the Inter Terminals business which decreased \$0.3 million and \$8.6 million in the three and nine months ended September 30, 2014, respectively, compared to the same periods in 2013. Inter Terminals revenue decreased in both periods as a result of lower occupancy levels and a reduction in average storage rates.

See the **Foreign Exchange Rates** section below for further information on changes in rates.

## Foreign Exchange Rates

<i>(dollars)</i>	Three Months Ended September 30			Nine Months Ended September 30		
	2014	2013	% change	2014	2013	% change
EURO/CAD	\$ 1.4422	\$ 1.3762	4.8	\$ 1.4832	\$ 1.3485	10.0
Pound Sterling/CAD	\$ 1.8168	\$ 1.6117	12.7	\$ 1.8261	\$ 1.5824	15.4

## Operating Expenses

Operating expenses in the bulk liquid storage business increased \$1.8 million and \$6.2 million in the three and nine months ended September 30, 2014, respectively, over the same periods in 2013. Foreign currency translation adjustments increased operating expenses by \$1.6 million in the third quarter and \$6.5 million year to date in 2014, compared to the same periods in 2013. Operating costs in the Simon Storage business increased \$0.7 million in the current quarter and \$0.6 million year to date in 2014, compared to the same periods in 2013. Higher fuel and power costs were the primary driver for the increase in operating expenses in the third quarter of 2014. Year to date, operating expenses increased as a result of flood related costs from the Immingham and Riverside terminals, which was partially offset by lower ancillary and fuel and power costs. Operating expenses from the Inter Terminals business decreased \$0.5 million and \$0.9 million for the three and nine months ended September 30, 2014, respectively, compared to the same periods in 2013, largely due to decreased maintenance and fuel and power costs.

## Capital Expenditures

The bulk liquid storage business incurred \$2.5 million of growth capital expenditures\* in the third quarter of 2014, largely relating to a number of tank life extensions and tank modification projects at the UK and German terminals. Growth capital expenditures\* also included \$0.1 million in the current quarter related to the \$9 million expansion at a terminal located near Mannheim, Germany, where six new tanks with total capacity of 57,000 barrels are being constructed in response to strong demand for specialty chemical storage service.

In the third quarter of 2014, the bulk liquid storage business incurred \$5.9 million in sustaining capital expenditures. These expenditures largely relate to environmental performance enhancement initiatives, other terminal infrastructure and safety improvement projects, as well as flood related replacement expenditures at the Immingham and Riverside terminals.

\* Please refer to the **NON-GAAP AND ADDITIONAL GAAP FINANCIAL MEASURES** section

## OTHER EXPENSES

<i>(millions)</i>	Three Months Ended		Nine Months Ended	
	September 30		September 30	
	2014	2013	2014	2013
Depreciation and amortization	\$ 36.5	\$ 31.8	\$ 103.1	\$ 94.1
Financing charges	27.2	23.9	66.1	70.1
Provision for income taxes	27.8	18.3	83.8	58.7
General and administrative	20.2	20.5	66.2	51.0
Management and incentive fees to general partner	-	(0.8)	-	8.0
Unrealized change in fair value of derivative financial instruments	-	6.9	(1.3)	7.8
(Gain) loss on disposal of assets	(3.3)	-	(5.0)	1.7
General partner internalization	-	-	-	348.6

### Depreciation and Amortization

Depreciation and amortization of tangible and intangible assets increased in the three and nine months by \$4.7 million and \$9.0 million, respectively, compared to the same periods in 2013. These increases are primarily due to depreciation of new assets now in service, partially offset by lower amortization as certain intangible assets are now fully amortized.

### Financing Charges

<i>(millions)</i>	Three Months Ended		Nine Months Ended	
	September 30		September 30	
	2014	2013	2014	2013
Interest on credit facilities	\$ 7.3	\$ 10.0	\$ 27.7	\$ 28.0
Interest on loan payable to private placement noteholders	4.4	4.4	13.2	13.3
Interest on Corridor Debentures	2.5	2.5	7.5	7.5
Interest on MTN Series 1 to 6	21.6	13.2	52.4	32.6
Total interest	35.8	30.1	100.8	81.4
Capitalized interest	(10.2)	(7.6)	(39.2)	(15.7)
Amortization of transaction costs on long-term debt, short-term debt and commercial paper	1.1	0.9	2.9	2.6
Accretion of provisions and pension plan funding charges	0.5	0.5	1.6	1.8
Total financing charges	\$ 27.2	\$ 23.9	\$ 66.1	\$ 70.1

Total financing charges increased \$3.3 million in the third quarter and decreased \$4.0 million year to date in 2014, compared to the same periods in 2013.

Capitalized interest increased \$2.6 million in the third quarter, compared to the same period in 2013, due to higher capitalized interest on the Cold Lake pipeline system expansion. Year to date in 2014, capitalized interest increased \$23.5 million, over the same period in 2013, due to incremental capitalized interest costs related to the Polaris and Cold Lake pipeline system expansions.

Interest on MTN's increased \$8.4 million and \$19.8 million in the three and nine months ended September 30, 2014, respectively, over the comparable periods in 2013, due to the timing of issuance of MTN Series 4 on July 19, 2013 and MTN Series 5 and 6 on May 30, 2014.

Interest on credit facilities decreased \$2.7 million in the third quarter and \$0.3 million year to date in 2014, compared to the same periods in 2013, as a result of lower average debt levels and a decrease in weighted average short-term interest rates. The weighted average credit facility debt outstanding decreased \$530.0 million to \$1,461.7 million in the third quarter of 2014 and \$23.9 million to \$1,855.8 million year to date in 2014, compared to the same periods in 2013.

Interest on the loan payable to private placement noteholders and the Corridor debentures for the three and nine months ended September 30, 2014, are consistent with the same periods in 2013.

Amortization of transaction costs on long-term debt, short-term debt and commercial paper increased \$0.2 million in the third quarter and \$0.3 million year to date in 2014, compared to the same periods in 2013, as a result of the timing of debt issuances.

Accretion of provisions and pension plan funding charges in the current quarter is consistent with the same period in 2013, however, decreased \$0.2 million on a year to date basis due to a pension plan adjustment at Simon Storage.

See the **LIQUIDITY AND CAPITAL RESOURCES** section for further information about Inter Pipeline's debt facilities and interest rate swaps.

### Income Taxes

Consolidated income tax expense increased \$9.5 million to \$27.8 million and \$25.1 million to \$83.8 million in the three and nine months ended September 30, 2014, respectively, over the same periods in 2013. The increase is primarily due to higher consolidated income before taxes over the comparable periods in 2013, after adjusting for the one-time non-cash general partner internalization expense.

### General and Administrative

<i>(millions)</i>	Three Months Ended		Nine Months Ended	
	September 30		September 30	
	2014	2013	2014	2013
Canada	\$ 17.7	\$ 18.2	\$ 58.3	\$ 44.3
Europe	2.5	2.3	7.9	6.7
	\$ 20.2	\$ 20.5	\$ 66.2	\$ 51.0

Canadian general and administrative expenses decreased \$0.5 million in the third quarter, compared to the same period in 2013, due to higher costs in 2013 relating to the internalization of the general partner and corporate conversion. Year to date in 2014, general and administrative costs increased \$14.0 million over the same period in 2013. The increase is primarily due to higher employee costs, including increased long-term incentive plan expense largely resulting from increases in Inter Pipeline's share price, the addition of new employees required to manage Inter Pipeline's business growth and a one-time key management personnel contract renegotiation.

In the three and nine months ended September 30, 2014, the European general and administrative costs increased \$0.2 million and \$1.2 million, respectively, over the comparable periods in 2013. The increase in both periods is largely due to unfavourable foreign currency translation adjustments.

### Fees to General Partner

In connection with the Corporate Conversion, effective on September 1, 2013, and as a result of the dissolution and termination of Inter Pipeline Fund, Inter Pipeline is no longer obligated to pay management, incentive, acquisition or disposition fees. During the three and nine months ended September 30, 2013, the general partner earned management fees from Inter Pipeline of \$2.0 million and \$8.0 million. In the third quarter of 2013, accrued incentive fees to the general partner of \$2.8 million were reversed as an obligation no longer existed upon approval of the Corporate Conversion. No acquisition or disposition fees were earned during the three and nine months ended September 30, 2013.

**Unrealized Change in Fair Value of Derivative Financial Instruments**

The change in fair value of Inter Pipeline's derivative financial instruments had no impact on net income in the third quarter and increased net income by \$1.3 million year to date in 2014.

Net income was favourably impacted year to date in 2014, by the change in fair value of NGL and foreign exchange swaps of \$1.3 million and \$0.1 million, respectively, while the change in fair value on natural gas swaps unfavourably impacted net income by \$0.1 million. At September 30, 2014, there were no NGL, natural gas or foreign exchange swaps outstanding.

See the **RISK MANAGEMENT AND FINANCIAL INSTRUMENTS** section for additional information on Inter Pipeline's risk management initiatives.

**Gain on Disposal of Assets**

Inter Pipeline recorded a gain on disposal of assets of \$3.3 million in the third quarter and \$5.0 million year to date in 2014. These gains largely relate to insurance proceeds received for asset damage due to flooding conditions that occurred at Simon Storage's Immingham and Riverside terminals in December 2013, as well as proceeds received from a customer on the settlement of tank damage at Simon Storage's Tyne terminal.

**General Partner Internalization**

On June 1, 2013, Inter Pipeline completed several internal transactions related to the restructuring of its limited partnership structure to position the business for Corporate Conversion (Internalization Transactions). Inter Pipeline settled the provisions of its management contract by indirectly purchasing its general partner, for initial consideration of \$170 million, plus adjustments of \$8.6 million, and a future second instalment of \$170 million.

## SUMMARY OF QUARTERLY RESULTS

<i>(millions, except per share and % amounts)</i>	2012		2013			2014		
	Fourth Quarter	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	First Quarter	Second Quarter	Third Quarter
<b>Revenue</b>								
Oil sands transportation	\$ 89.4	\$ 91.6	\$ 93.3	\$ 96.2	\$ 107.4	\$ 105.1	\$ 102.9	\$ 128.2
Conventional oil pipelines	62.0	67.3	71.5	81.1	82.3	91.2	96.0	89.6
NGL extraction	133.5	129.4	117.5	127.2	146.6	168.4	137.0	120.2
Bulk liquid storage	38.8	39.4	38.0	36.0	37.9	46.0	40.0	41.6
	\$ 323.7	\$ 327.7	\$ 320.3	\$ 340.5	\$ 374.2	\$ 410.7	\$ 375.9	\$ 379.6
<b>Funds from operations<sup>(1)</sup></b>								
Oil sands transportation	\$ 49.0	\$ 50.8	\$ 49.0	\$ 55.7	\$ 64.2	\$ 63.4	\$ 63.0	\$ 82.5
Conventional oil pipelines	38.7	40.4	43.5	47.0	44.0	46.0	49.6	48.7
NGL extraction	38.7	43.0	31.1	43.2	53.4	48.5	34.7	34.4
Bulk liquid storage	20.0	20.4	19.5	17.2	16.1	21.6	18.2	19.8
Corporate costs	(42.7)	(45.2)	(37.7)	(39.8)	(43.2)	(47.8)	(33.9)	(44.4)
	\$ 103.7	\$ 109.4	\$ 105.4	\$ 123.3	\$ 134.5	\$ 131.7	\$ 131.6	\$ 141.0
Per share <sup>(1)</sup>	\$ 0.38	\$ 0.40	\$ 0.37	\$ 0.44	\$ 0.44	\$ 0.43	\$ 0.41	\$ 0.43
Net income (loss) <sup>(2)</sup>	\$ 59.7	\$ 72.2	\$ (281.6)	\$ 77.8	\$ 84.6	\$ 89.6	\$ 85.3	\$ 95.0
Net income (loss) attributable								
to shareholders <sup>(2)</sup>	\$ 57.3	\$ 69.7	\$ (283.9)	\$ 74.8	\$ 81.3	\$ 86.1	\$ 81.7	\$ 91.4
Per share – basic	\$ 0.21	\$ 0.25	\$ (1.02)	\$ 0.27	\$ 0.27	\$ 0.28	\$ 0.25	\$ 0.28
Per share – diluted	\$ 0.21	\$ 0.25	\$ (1.02)	\$ 0.26	\$ 0.26	\$ 0.27	\$ 0.25	\$ 0.28
Dividends to shareholders <sup>(3)</sup>	\$ 73.4	\$ 76.8	\$ 78.2	\$ 84.6	\$ 98.6	\$ 99.6	\$ 103.9	\$ 104.7
Per share <sup>(3)</sup>	\$ 0.2675	\$ 0.2775	\$ 0.2800	\$ 0.2975	\$ 0.3225	\$ 0.3225	\$ 0.3225	\$ 0.3225
Shares outstanding (basic)								
Weighted average	273.9	276.4	278.8	283.6	304.7	309.0	321.6	324.2
End of period	275.2	277.6	280.0	289.8	306.8	320.3	323.0	325.4
Capital expenditures <sup>(4)</sup>								
Growth <sup>(1)</sup>	\$ 128.3	\$ 407.6	\$ 395.8	\$ 566.1	\$ 549.4	\$ 544.7	\$ 243.8	\$ 256.3
Sustaining <sup>(1)</sup>	15.6	5.9	5.8	7.4	11.0	6.2	10.2	12.0
	\$ 143.9	\$ 413.5	\$ 401.6	\$ 573.5	\$ 560.4	\$ 550.9	\$ 254.0	\$ 268.3
Payout ratio <sup>(1)</sup>	72.8%	72.2%	76.1%	70.5%	75.5%	78.0%	81.5%	76.6%
Total debt <sup>(5)</sup>	\$ 3,127.6	\$ 3,246.6	\$ 3,578.0	\$ 3,964.5	\$ 3,960.8	\$ 4,155.8	\$ 4,283.8	\$ 4,396.3
Total shareholders' equity	\$ 1,659.5	\$ 1,686.9	\$ 1,414.3	\$ 1,661.9	\$ 2,100.3	\$ 2,490.4	\$ 2,521.3	\$ 2,566.9
Enterprise value <sup>(1)</sup>	\$ 9,593.8	\$ 9,862.2	\$ 9,646.1	\$ 11,252.0	\$ 11,885.4	\$ 13,504.4	\$ 14,981.6	\$ 16,223.6
Total debt to total capitalization <sup>(1)</sup>	65.3%	65.8%	71.7%	70.5%	65.3%	62.5%	63.0%	63.1%
Total recourse debt to capitalization <sup>(1)</sup>	47.0%	48.7%	57.8%	58.5%	52.8%	50.7%	51.7%	52.2%

(1) Please refer to the **NON-GAAP AND ADDITIONAL GAAP FINANCIAL MEASURES** section.

(2) In June 2013, Inter Pipeline completed several internal transactions related to the restructuring of its limited partnership structure to position the business for Corporate Conversion by indirectly purchasing its general partner, for initial consideration of \$170 million, plus closing adjustments of \$8.6 million, and a future second instalment of \$170 million.

(3) Dividends to shareholders are calculated based on the number of common shares outstanding at each record date.

(4) Amounts reported on a 100% basis that includes non-controlling interest.

(5) Total debt includes long-term debt, short-term debt and commercial paper before discounts and debt transaction costs.

## LIQUIDITY AND CAPITAL RESOURCES

Inter Pipeline's capital management objectives are aligned with its commercial growth strategies and long-term outlook for the business. The primary objectives are to maintain:

- (i) stable dividends to shareholders over economic and industry cycles;
- (ii) a flexible capital structure which optimizes the cost of capital within an acceptable level of risk; and
- (iii) an investment grade credit rating.

Management may make adjustments to the capital structure for changes in economic conditions or the risk characteristics of the underlying assets. To maintain or modify the capital structure, Inter Pipeline may adjust the level of dividends to shareholders, issue new common shares or new debt, renegotiate new debt terms or repay existing debt.

Inter Pipeline maintains flexibility in its capital structure to fund growth capital\* and acquisitions through market and industry cycles. Funding requirements are projected to ensure appropriate sources of financing are available to meet future financial obligations and capital expenditure programs. Inter Pipeline generally relies on committed credit facilities and FFO to fund capital requirements. At September 30, 2014, Inter Pipeline had access to committed credit facilities totaling \$2.8 billion, of which \$1,317.3 million remained unutilized, and demand facilities totaling \$65 million of which \$64.5 million remained unutilized. Certain facilities are available to specific subsidiaries of Inter Pipeline.

Inter Pipeline may also issue equity capital to ensure its balance sheet remains well prepared for expected growth. During the three and nine months ended September 30, 2014, approximately \$77.6 million and \$236.3 million, respectively, of equity was issued through the dividend reinvestment plan, however, effective September 16, 2014, Inter Pipeline suspended the premium dividend component of the Premium Dividend™ and dividend reinvestment plan. On March 26, 2014, Inter Pipeline completed an equity offering selling 10,400,000 common shares at \$28.90 per share for gross proceeds of \$300.6 million. Net proceeds from the offering were used to pay down a portion of bank indebtedness that was incurred to fund Inter Pipeline's capital expenditure program and other general corporate purposes.

On May 30, 2014, Inter Pipeline issued \$500 million of senior unsecured MTN Series 5 due May 30, 2044 and \$400 million of senior unsecured MTN Series 6 due May 30, 2017, in the Canadian public debt market. The MTN Series 5 bear interest at a fixed rate of 4.637% per annum, payable semi-annually; while the MTN Series 6 have a floating interest rate of 3-month CDOR plus 49 basis points, payable quarterly. Net proceeds from these issuances were used to repay a portion of Inter Pipeline's bank indebtedness incurred through funding its capital expenditure program and for other general corporate purposes.

Inter Pipeline has a current short form base shelf prospectus with Canadian regulatory authorities that was filed in December 2013. Under provisions detailed in the short form base shelf prospectus, Inter Pipeline may offer and issue, from time to time: (i) common shares; (ii) preferred shares; (iii) debt securities and (iv) subscription receipts (collectively, the "Securities") of up to \$3.0 billion aggregate initial offering price of Securities during the 25 month period that the short form base shelf prospectus is valid. Securities may be offered separately or together, in amounts, at prices and on terms to be determined based on market conditions at the time of sale and set forth in one or more prospectus supplements. As a result of the equity and debt offerings in March and May of 2014, respectively, the amount that can be issued under the shelf prospectus and related prospectus supplements has been reduced to approximately \$1.8 billion.

Taking market trends into consideration, Inter Pipeline regularly forecasts its operational activities and expected FFO\* to ensure that sufficient funding is available for future capital programs and dividends to shareholders.

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\* Please refer to the **NON-GAAP AND ADDITIONAL GAAP FINANCIAL MEASURES** section

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Inter Pipeline may utilize derivative financial instruments to minimize exposure to fluctuating commodity prices, foreign exchange and interest rates. Inter Pipeline's risk management policy defines and specifies the controls and responsibilities to manage market exposure to changing commodity prices (crude oil, natural gas, NGL and power) and changes within financial markets relating to interest rates and foreign exchange exposure. Further details of the risk management program are discussed in the **RISK MANAGEMENT AND FINANCIAL INSTRUMENTS** section.

## CAPITAL STRUCTURE

			September 30	December 31
<i>(millions, except % amounts)</i>	Recourse	Non-recourse	2014	2013
<b>Credit facilities available</b>				
Corridor syndicated facility	\$ -	\$ 1,550.0	\$ 1,550.0	\$ 1,550.0
Inter Pipeline syndicated facility	1,250.0	-	1,250.0	1,250.0
	1,250.0	1,550.0	2,800.0	2,800.0
Demand facilities <sup>(1)</sup>	40.0	25.0	65.0	65.0
	\$ 1,290.0	\$ 1,575.0	\$ 2,865.0	\$ 2,865.0
<b>Total debt outstanding<sup>(1)</sup></b>				
Recourse				
Inter Pipeline syndicated facility			\$ 189.0	\$ 635.0
Loan payable to private placement noteholders <sup>(2)</sup>			288.6	288.6
MTN Series 1 to 6 <sup>(3)</sup>			2,325.0	1,425.0
Non-recourse				
Corridor syndicated facility			1,293.7	1,312.2
Corridor debentures			300.0	300.0
Total debt <sup>(1)(4)</sup>			4,396.3	3,960.8
Total shareholders' equity			2,566.9	2,100.3
Total capitalization <sup>(5)</sup>			\$ 6,963.2	\$ 6,061.1
Total debt to total capitalization <sup>(5)</sup>			63.1%	65.3%
Total recourse debt to capitalization <sup>(5)</sup>			52.2%	52.8%

(1) At September 30, 2014, outstanding Inter Pipeline and Corridor letters of credit of approximately \$0.3 million and \$0.2 million, respectively, were not included in total debt outstanding.

(2) On October 28, 2014, the loan payable to private placement noteholders of \$288.6 million matured and was repaid.

(3) Inter Pipeline issued \$325 million MTN Series 1 and \$200 million MTN Series 2 in 2011; \$400 million MTN Series 3 in 2012; \$500 million MTN Series 4 in 2013; \$500 million MTN Series 5 and \$400 million MTN Series 6 in 2014.

(4) Total debt reported in the September 30, 2014 consolidated financial statements of \$4,377.0 million, includes long-term debt, short-term debt and commercial paper outstanding of \$4,396.3 million less discounts and debt transaction costs of \$19.3 million.

(5) Please refer to the **NON-GAAP AND ADDITIONAL GAAP FINANCIAL MEASURES** section.

Inter Pipeline's capital under management includes financial debt and shareholders' equity. Capital management objectives are to provide access to capital at a reasonable cost while maintaining an investment grade long-term corporate credit rating and ensuring compliance with all debt covenants. Management's long-term objectives are to remain below its maximum permitted ratio of 65% recourse debt to capitalization.

On October 28, 2014, the loan payable to private placement noteholders of \$288.6 million matured and was repaid with funds available under Inter Pipeline's syndicated credit facility.

At September 30, 2014, Inter Pipeline's total recourse debt to capitalization ratio\* was 52.2%. This ratio is higher than normal as a result of charging the one-time, non-cash internalization cost of

\* Please refer to the **NON-GAAP AND ADDITIONAL GAAP FINANCIAL MEASURES** section

\$348.6 million to earnings in the second quarter of 2013. This non-cash expense concurrently decreased shareholders' equity which reduced Inter Pipeline's capitalization by \$348.6 million. On September 3, 2013, Inter Pipeline announced its successful Corporate Conversion, resulting in the general partner internalization liability of \$178.6 million being converted to common shares of Inter Pipeline. The remaining general partner internalization liability of \$170 million was settled with convertible shares which will be converted to common shares upon successful completion and revenue commencement of certain organic growth projects currently under development prior to 2017, and as a result Inter Pipeline's shareholders' equity will correspondingly increase. Management anticipates this will occur in early 2015. At this time, the remaining impact to equity of charging the internalization value to earnings will be reversed, and the related negative impact on Inter Pipeline's total recourse debt to capitalization level will be eliminated. A description of the terms of the convertible shares are contained in Inter Pipeline's Annual Information Form dated February 20, 2014, under the heading "Description of Capital Structure – Description of Convertible Shares". Inter Pipeline's total debt to total capitalization ratio, which includes non-recourse debt of \$1,593.7 million held within Inter Pipeline's Corridor corporate entity, was 63.1% at September 30, 2014. The table below shows the impact the convertible shares would have on Inter Pipeline's total debt to total capitalization and total recourse debt to capitalization ratios at September 30, 2014.

	September 30, 2014	
	Ratio	After convertible shares impact <sup>(2)</sup>
Total debt to total capitalization <sup>(1)</sup>	63.1%	61.6%
Total recourse debt to capitalization <sup>(1)</sup>	52.2%	50.6%

(1) Please refer to the **NON-GAAP AND ADDITIONAL GAAP FINANCIAL MEASURES** section.

(2) Includes the impact of Inter Pipeline's convertible shares as if they were converted to common shares of Inter Pipeline at September 30, 2014.

At September 30, 2014, approximately \$2,032.7 million or 46.2% of Inter Pipeline's total consolidated debt was exposed to variable interest rates. Of this amount \$1,443.7 million or 71.0% relates to Corridor debt outstanding and its financing costs are directly recoverable through the terms of the Corridor FSA. When deemed appropriate, Inter Pipeline may enter into interest rate swap agreements to manage its interest rate risk exposure. Inter Pipeline has an interest rate swap agreement to manage fixed interest rate exposure on Corridor's Series B debentures.

	September 30		December 31	
	2014		2013	
Maturity date	Fixed Rate Per Annum (excluding applicable margin)	Notional Balance (millions)	Fixed Rate Per Annum (excluding applicable margin)	Notional Balance (millions)
Corridor debentures				
- Fixed to floating rate swap				
Series B - February 2, 2015	5.033%	\$ 150.0	5.033%	\$ 150.0

The following earnings coverage ratios are calculated on a consolidated basis for the twelve month periods ended September 30, 2014 and December 31, 2013.

	Twelve Months Ended	
	September 30	December 31
(times)	2014	2013
Interest coverage <sup>(1)(2)</sup>	3.9	1.0

(1) Please refer to the **NON-GAAP AND ADDITIONAL GAAP FINANCIAL MEASURES** section.

(2) Net income (loss) attributable to shareholders plus income taxes, and borrowing costs, divided by the sum of borrowing costs, capitalized borrowing costs and any retirement of obligations.

\* Please refer to the **NON-GAAP AND ADDITIONAL GAAP FINANCIAL MEASURES** section

Inter Pipeline's interest coverage ratio for the twelve month period ended December 31, 2013 would have been 4.0 times had it not been impacted by the one-time non-cash general partner internalization expense of \$348.6 million to earnings in the second quarter of 2013. As a result of charging the internalization cost to earnings the interest coverage ratio decreased to 1.0 times for the twelve month period ended December 31, 2013.

The following investment grade, long-term corporate credit ratings or senior unsecured debt ratings are maintained by Inter Pipeline and by Corridor.

	Credit Rating	Trend/Outlook
<b>Inter Pipeline Ltd.</b>		
S&P	BBB+	Stable
DBRS	BBB (high)	Stable
<b>Inter Pipeline (Corridor) Inc.</b>		
S&P	A	Stable
DBRS	A	Stable
Moody's	A2	Stable

## CONTRACTUAL OBLIGATIONS, COMMITMENTS AND GUARANTEES

The following table summarizes Inter Pipeline's expected capital spending profile and future contractual obligations at September 30, 2014. Management intends to finance short-term commitments either through existing or renegotiated credit facilities and FFO. Longer term commitments will be funded through Inter Pipeline's capital management policies as discussed earlier in the **LIQUIDITY AND CAPITAL RESOURCES** section.

<i>(millions)</i>	Total	Less than one year	One to five years	After five years
Capital expenditure projects <sup>(1)(2)</sup>				
Oil sands transportation <sup>(2)</sup>	\$ 592.4	\$ 195.5	\$ 396.9	\$ -
Conventional oil pipelines	107.4	46.9	60.5	-
NGL extraction	0.8	0.8	-	-
Bulk liquid storage	10.0	2.8	7.2	-
Growth capital funded by Inter Pipeline <sup>(2)(3)</sup>	710.6	246.0	464.6	-
Sustaining capital funded by Inter Pipeline <sup>(2)(3)</sup>	13.8	13.8	-	-
	724.4	259.8	464.6	-
Total debt <sup>(4)</sup>				
Corridor syndicated facility <sup>(5)</sup>	1,293.7	1,293.7	-	-
Inter Pipeline syndicated facility	189.0	-	189.0	-
Loan to private placement noteholders <sup>(6)</sup>	288.6	288.6	-	-
Corridor debentures	300.0	150.0	-	150.0
MTN Series 1 to 6	2,325.0	-	600.0	1,725.0
	4,396.3	1,732.3	789.0	1,875.0
Other obligations				
Operating leases	242.0	9.6	55.0	177.4
Purchase obligations	189.4	48.4	36.2	104.8
Long-term portion of incentive plan	6.8	-	6.8	-
Working capital deficit <sup>(3)</sup>	305.2	305.2	-	-
	\$ 5,864.1	\$ 2,355.3	\$ 1,351.6	\$ 2,157.2

- (1) Capital expenditures classified as "less than one year" represent expected spending for the remaining months in 2014.
- (2) Inter Pipeline's expected growth and sustaining capital spending profile including the 15% non-controlling interest in Cold Lake is \$788.0 million.
- (3) Please refer to the **NON-GAAP AND ADDITIONAL GAAP FINANCIAL MEASURES** section.
- (4) At September 30, 2014, outstanding Inter Pipeline and Corridor letters of credit of approximately \$0.3 million and \$0.2 million, respectively, were not included in total debt outstanding. Total debt reported in the September 30, 2014 consolidated financial statements of \$4,377.0 million, includes long-term debt, short-term debt and commercial paper of \$4,396.3 million less discounts and debt transaction costs of \$19.3 million.
- (5) Principal obligations are related to commercial paper. This amount is fully supported and management expects that it will continue to be supported by Corridor's fully committed syndicated revolving credit facility that has no repayment requirements until December 2017.
- (6) On October 28, 2014, the loan payable to private placement noteholders of \$288.6 million matured and was repaid.
- (7) Convertible shares recorded as a liability of \$170 million are not expected to be settled in cash and therefore not included in the table above.

Inter Pipeline plans to fund approximately \$725 million in growth capital\* projects over the next five years.

Inter Pipeline's bulk liquid storage business will incur additional sustaining capital expenditures\* in the foreseeable future to comply with UK's storage and containment regulations, as discussed in the risk factors relating to Post Buncefield Regulation in Inter Pipeline's 2013 annual MD&A.

\* Please refer to the **NON-GAAP AND ADDITIONAL GAAP FINANCIAL MEASURES** section

Inter Pipeline's debt outstanding at September 30, 2014, matures at various dates up to May 2044 as follows:

<i>(millions)</i>	Amount	Rate	Maturity date
<b>Inter Pipeline Ltd.</b>			
\$1.25 billion syndicated facility	\$ 189.0	Variable	December 5, 2018
Loan payable to private placement noteholders <sup>(1)</sup>	288.6	6.100%	October 28, 2014
MTN Series 1	325.0	4.967%	February 2, 2021
MTN Series 2	200.0	3.839%	July 30, 2018
MTN Series 3	400.0	3.776%	May 30, 2022
MTN Series 4	500.0	3.448%	July 20, 2020
MTN Series 5	500.0	4.637%	May 30, 2044
MTN Series 6	400.0	CDOR plus 49 bps	May 30, 2017
<b>Inter Pipeline (Corridor) Inc.</b>			
\$1.55 billion syndicated facility	1,293.7	Variable	December 15, 2017
Series B debentures	150.0	5.033%	February 2, 2015
Series C debentures	150.0	4.897%	February 3, 2020

(1) On October 28, 2014, the loan payable to private placement noteholders of \$288.6 million matured and was repaid.

The following future obligations resulting from the normal course of operations will be primarily funded from FFO\* in the respective periods that they become due or may be funded through debt:

- (i) Derivative financial instruments are utilized to manage market risk exposure to changes in commodity prices, foreign currencies and interest rates in future periods. This future obligation is an estimate of the fair value of the liability on an undiscounted basis for financially net settled derivative contracts outstanding at September 30, 2014, based upon the various contractual maturity dates.
- (ii) Operating leases and purchase obligations represent minimum payment obligations associated with leases and normal operating agreements for periods up to 2090.
- (iii) Working capital deficiencies\* arise primarily from capital expenditures outstanding in accounts payable at the end of a period, and fluctuate with changes in commodity prices.
- (iv) Inter Pipeline has obligations of \$44.5 million under its employee long-term incentive plan, of which \$37.7 million is included in the working capital deficit\*.
- (v) Present value of estimated expenditures expected to be incurred on decommissioning of active pipeline systems, NGL extraction plants and leased bulk liquid storage sites and remediation of known environmental liabilities is \$63.0 million at September 30, 2014. Due to the uncertainty of timing for payment of these obligations, they were excluded from the table above.

\* Please refer to the **NON-GAAP AND ADDITIONAL GAAP FINANCIAL MEASURES** section

## DIVIDENDS TO SHAREHOLDERS

<i>(millions, except per share and % amounts)</i>	Three Months Ended		Nine Months Ended	
	September 30		September 30	
	2014	2013	2014	2013
Cash provided by operating activities	\$ 123.8	\$ 128.0	\$ 405.3	\$ 358.2
Net change in non-cash operating working capital	17.2	(4.7)	(1.0)	(20.1)
Less funds from operations <sup>(1)</sup> attributable to non-controlling interest	(4.3)	(3.3)	(12.4)	(8.9)
Funds from operations <sup>(1)</sup> attributable to shareholders	136.7	120.0	391.9	329.2
Dividends to shareholders	\$ 104.7	\$ 84.6	\$ 308.2	\$ 239.6
Dividends per share <sup>(2)</sup>	\$ 0.3225	\$ 0.2975	\$ 0.9675	\$ 0.8550
Payout ratio <sup>(1)</sup>	76.6%	70.5%	78.6%	72.8%

(1) Please refer to the **NON-GAAP AND ADDITIONAL GAAP FINANCIAL MEASURES** section.

(2) Dividends to shareholders are calculated based on the number of common shares outstanding at each record date.

Inter Pipeline's goal is to provide shareholders with stable dividends over time. As a result, not all FFO attributable to shareholders are distributed to shareholders. A portion is withheld and reinvested in the business to effectively manage its capital structure, and in particular, debt levels. Inter Pipeline sets dividend levels based on the underlying assumptions in each year's annual operating and capital budget and long-term forecast, consistent with its goal to provide shareholders with stable dividends. Dividends are determined at the discretion of Inter Pipeline's Board of Directors, subject to certain legal requirements, and are payable when declared.

FFO\* is an additional GAAP financial measure that Inter Pipeline uses in managing its business and in assessing future cash requirements that impact the determination of future dividends to shareholders. Inter Pipeline expresses FFO\* attributable to shareholders as cash provided by operating activities less net changes in non-cash working capital and funds from operations attributable to non-controlling interest. The impact of net change in non-cash working capital is excluded in the calculation of FFO\* primarily to compensate for the seasonality of working capital throughout the year. Certain Inter Pipeline revenue contracts dictate an exchange of cash that differs, on a monthly basis, from the recognition of revenue. Within a 12-month calendar year, there is minimal variation between revenue recognized and cash exchanged. Inter Pipeline therefore excludes the net change in non-cash working capital in its calculation of FFO\* to mitigate its quarterly impact. The intent is to not skew the results of Inter Pipeline in any quarter for exchanges of cash, but to focus the results on cash that is generated in any reporting period.

\* Please refer to the **NON-GAAP AND ADDITIONAL GAAP FINANCIAL MEASURES** section

The tables below show Inter Pipeline's dividends declared relative to cash provided by operating activities and net income (loss) attributable to shareholders for the periods indicated. See the **OUTLOOK** section of this report and **RISK FACTORS** section for further information regarding the sustainability of dividends.

	Three Months Ended		Nine Months Ended	
	September 30		September 30	
(millions)	2014	2014	2013	Years Ended December 31 2012
Cash provided by operating activities	\$ 123.8	\$ 405.3	\$ 468.7	\$ 385.5
Less cash provided by operating activities attributable to non-controlling interest	(5.0)	(21.4)	(7.8)	(10.2)
Dividends to shareholders	(104.7)	(308.2)	(338.2)	(285.2)
Excess	\$ 14.1	\$ 75.7	\$ 122.7	\$ 90.1

(1) IFRS 10 *Consolidated Financial Statements* adoption was effective as of January 1, 2013 and restated for 2012 as required for comparative purposes.

	Three Months Ended		Nine Months Ended	
	September 30		September 30	
(millions)	2014	2014	2013	Years Ended December 31 2012
Net income (loss) attributable to shareholders	\$ 91.4	\$ 259.2	\$ (58.1)	\$ 307.2
Dividends to shareholders	(104.7)	(308.2)	(338.2)	(285.2)
(Shortfall) excess	\$ (13.3)	\$ (49.0)	\$ (396.3)	\$ 22.0

Cash provided by operating activities in all periods was greater than dividends to shareholders plus cash provided by operating activities attributable to non-controlling interest. Dividends were also less than net income attributable to shareholders for the year ended December 31, 2012. Net income (loss) also includes certain non-cash expenses such as depreciation and amortization, deferred income taxes and unrealized changes in the fair value of derivative financial instruments, therefore dividends may exceed net income attributable to shareholders.

## OUTSTANDING SHARE DATA

Inter Pipeline's outstanding common shares at September 30, 2014 are as follows:

(millions)	Total
Common shares outstanding	325.4

At November 4, 2014, Inter Pipeline had 325.6 million common shares outstanding.

## RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

### MARKET RISK MANAGEMENT

Inter Pipeline utilizes derivative financial instruments to manage liquidity and market risk exposure to changes in commodity prices, foreign currencies and interest rates. Risk management policies are intended to minimize the volatility of Inter Pipeline's exposure to commodity price, foreign exchange and interest rate risk to assist with stabilizing FFO. Inter Pipeline endeavours to accomplish this primarily through the use of derivative financial instruments. Inter Pipeline prohibits the use of derivative financial instruments for speculative purposes. All hedging policies are authorized and approved by the board of directors through Inter Pipeline's risk management policy.

Inter Pipeline enters into the following types of derivative financial instruments: commodity price swap agreements, foreign currency exchange contracts, power price hedges and heat rate and interest rate swap agreements. The mark-to-market or fair value of these financial instruments is recorded as an

\* Please refer to the **NON-GAAP AND ADDITIONAL GAAP FINANCIAL MEASURES** section

asset or liability and any change in the fair value recognized as an unrealized change in fair value of these derivative financial instruments in the calculation of net income. When the financial instrument matures, any realized gain or loss is recorded in net income.

In the following sections, sensitivity analyses are presented to provide an indication of the amount that an isolated change in one variable may have on net income and are based on derivative financial instruments and long-term debt and commercial paper outstanding at September 30, 2014. The analyses are hypothetical and should not be considered to be predictive of future performance. Changes in fair value generally cannot be extrapolated based on one variable because the relationship with other variables may not be linear. In reality, changes in one variable may magnify or counteract the impact of another variable which may result in a significantly different conclusion.

## **NGL Extraction Business**

### **Frac-spread Risk Management**

Inter Pipeline is exposed to frac-spread risk which is the difference between the weighted average propane-plus price at Mont Belvieu, Texas and the monthly index price of AECO natural gas purchased for shrinkage calculated in USD/USG. Derivative financial instruments may be utilized to manage frac-spread risk. As at September 30, 2014, there are no frac-spread hedges outstanding.

### **Power Price Risk Management**

Inter Pipeline may use derivative financial instruments to manage power price risk in its NGL extraction and conventional oil pipelines business segments. When deemed appropriate, Inter Pipeline enters into financial heat rate swap and power price swap contracts to manage power price risk exposure in these businesses. As at September 30, 2014, there are no heat rate swap agreements outstanding.

Inter Pipeline has existing electricity price swap agreements in the conventional oil pipelines business. At September 30, 2014, a 10% change in Alberta power pool commodity prices in isolation with all other variables held constant would have changed the mark-to-market valuation of Inter Pipeline's derivative financial instruments used to manage power price risk and consequently after-tax income by approximately \$0.1 million.

## **Bulk Liquid Storage Business**

### **Foreign Exchange Risk Management**

Inter Pipeline is exposed to currency risk resulting from the translation of assets and liabilities of its European bulk liquid storage operations and transactional currency exposures arising from purchases in currencies other than Inter Pipeline's functional currency, the Canadian dollar. Transactional foreign currency risk exposures have not been significant historically, therefore are generally not hedged; however, Inter Pipeline may decide to hedge this risk in the future. As at September 30, 2014, there are no foreign exchange hedges outstanding.

## **Corporate**

### **Interest Rate Risk Management**

Inter Pipeline's exposure to interest rate risk primarily relates to its long-term debt obligations and fair valuation of its floating-to-fixed interest rate swap agreements. Inter Pipeline manages its interest rate risk by balancing its exposure to fixed and variable rates while minimizing interest costs. When deemed appropriate, Inter Pipeline enters into interest rate swap agreements to manage its interest rate price risk exposure. As at September 30, 2014, Inter Pipeline has a fixed-to-floating interest rate swap agreement on Corridor's Series B debentures.

Based on the variable rate obligations outstanding at September 30, 2014, a 1% change in interest rates at this date would have changed interest expense for the three and nine months ended September 30, 2014, by approximately \$4.7 million and \$12.4 million, respectively, assuming all other variables remain constant. Of these amounts, \$3.3 million and \$9.7 million, for the three and nine months ended September 30, 2014, respectively, relate to the \$1.55 billion unsecured revolving credit facility and are recoverable through the terms of the Corridor FSA, therefore the after-tax income impact for the three and nine months ended September 30, 2014 would be \$1.1 million and \$2.1 million, respectively.

## **CREDIT RISK**

Inter Pipeline's credit risk exposure relates primarily to customers and financial counterparties holding cash and derivative financial instruments, with a maximum exposure equal to the carrying amount of these instruments. Credit risk is managed through credit approval and monitoring procedures. The creditworthiness assessment takes into account available qualitative and quantitative information about the counterparty including, but not limited to, business performance, financial status and external credit ratings. Depending on the outcome of each assessment, guarantees or some other form of credit enhancement may be requested as security. Inter Pipeline attempts to mitigate its exposure by entering into contracts with customers that may permit netting or entitle Inter Pipeline to lien or take product in kind and/or allow for termination of the contract on the occurrence of certain events of default. Each business segment monitors outstanding accounts receivable on an ongoing basis.

Concentrations of credit risk associated with accounts receivable relate to a limited number of principal customers in the oil sands transportation and NGL extraction business segments, the majority of which are affiliated with investment grade corporations in the energy and chemical industry sectors. At September 30, 2014, accounts receivable associated with these two business segments were \$117.1 million or 69.2% of total accounts receivable outstanding. Inter Pipeline believes the credit risk associated with the remainder of accounts receivable is minimized due to diversity across business segments and customers.

With respect to credit risk arising from cash and cash equivalents, deposits and derivative financial instruments, Inter Pipeline believes the risk of non-performance of counterparties is minimal as cash, deposits and derivative financial instruments outstanding are predominantly held with major financial institutions or investment grade corporations.

Inter Pipeline actively monitors the risk of non-performance of its customers and financial counterparties. At September 30, 2014, accounts receivable outstanding meeting the definition of past due and impaired is insignificant.

## **TRANSACTIONS WITH RELATED PARTIES**

No revenue was earned from related parties in the three and nine month periods ended September 30, 2014 or 2013.

## **CONTROLS AND PROCEDURES**

Management has made no material changes to the disclosure controls and procedures and internal controls over financial reporting during the third quarter of 2014.

## **CRITICAL ACCOUNTING ESTIMATES AND BASIS OF PRESENTATION**

The preparation of Inter Pipeline's consolidated financial statements requires management to make critical and complex judgments, estimates and assumptions about future events, when applying GAAP, that have a significant impact on the financial results reported. These judgments, estimates, and assumptions are subject to change as future events occur or new information becomes available. Readers should refer to note 3 *Summary of Significant Accounting Policies* of the December 31, 2013 audited consolidated financial statements for a list of Inter Pipeline's significant accounting policies.

The amounts recorded for derivative financial instruments, business combinations, consolidation of non-controlling interest, non-financial asset impairment, property, plant and equipment, provisions, deferred income taxes and depreciation and amortization are based on estimates. By their nature, these estimates are subject to measurement uncertainty and the effect on the financial statements of changes in such estimates in future years could be material.

Inter Pipeline's interim financial statements for the three and nine months ended September 30, 2014 have been presented in accordance with IAS 34 and have been prepared by management following the same accounting policies and methods of computation as disclosed in the audited consolidated financial statements for the year ended December 31, 2013.

## **FUTURE ACCOUNTING PRONOUNCEMENTS**

### **IFRS 15 Revenue from Contracts with Customers (IFRS 15)**

IFRS 15 replaces IAS 18 *Revenue*, IAS 11 *Construction Contracts* and related interpretations and shall be applied to annual periods beginning on or after January 1, 2017, with early adoption permitted. IFRS 15 establishes a control based revenue recognition model under which revenue is recognized when control of the underlying goods or services for the particular performance obligation is transferred to the customer. Inter Pipeline is currently assessing the impact of IFRS 15; however the extent of the impact has not yet been determined.

## **RISK FACTORS**

During the third quarter of 2014, there were no significant changes to Inter Pipeline's operating activities that would affect the disclosure of risk factors as discussed in its 2013 annual MD&A.

## **NON-GAAP AND ADDITIONAL GAAP FINANCIAL MEASURES**

Certain non-GAAP financial measures referred to in this MD&A, namely "adjusted working capital deficiency", "EBITDA", "adjusted EBITDA", "enterprise value", "growth capital expenditures", "normalized net income", "sustaining capital expenditures", "interest coverage", "payout ratio" and "total debt to total capitalization" are not measures recognized by GAAP. Certain additional GAAP financial measures presented in the consolidated financial statements and referred to in this MD&A, namely "funds from operations", "funds from operations per share", and "total recourse debt to capitalization" are not measures recognized by GAAP. These non-GAAP and additional GAAP financial measures do not have standardized meanings prescribed by GAAP and therefore may not be comparable to similar measures presented by other entities. Investors are cautioned that non-GAAP and additional GAAP financial measures should not be construed as alternatives to other measures of financial performance calculated in accordance with GAAP.

### **Non-GAAP Financial Measures**

The following non-GAAP financial measures are provided to assist investors with their evaluation of Inter Pipeline, including their assessment of its ability to generate cash and fund monthly dividends. Management considers these non-GAAP financial measures to be important indicators in assessing its performance.

**Adjusted working capital deficiency** is calculated by subtracting current liabilities from current assets including cash and excluding the fair value of derivative financial instruments, convertible shares, commercial paper and current portion of long-term debt.

<i>(millions)</i>	September 30 2014	December 31 2013
Current assets		
Cash and cash equivalents	\$ 60.7	\$ 47.2
Accounts receivable	169.2	246.3
Prepaid expenses and other deposits	42.5	41.3
Current liabilities		
Dividends payable	(35.0)	(33.0)
Accounts payable, accrued liabilities and provisions	(517.8)	(578.7)
Current income taxes payable	-	(31.2)
Deferred revenue	(24.8)	(6.8)
Adjusted working capital deficiency	\$ (305.2)	\$ (314.9)

**EBITDA, adjusted EBITDA** are reconciled from the components of net income as noted below. EBITDA is expressed as net income before total interest less capitalized interest, income taxes, depreciation and amortization; adjusted EBITDA also includes additional adjustments for (gain) loss on disposal of assets, non-cash expense and unrealized change in fair value of derivative financial instruments. These additional adjustments are made to exclude various non-cash items, or items of an unusual nature that are not reflective of ongoing operations. These adjustments are also made to better reflect the historical measurement of EBITDA used in the investment community as an approximate measure of an entities operating cash flow based on data from its income statement.

<i>(millions)</i>	Three Months Ended September 30		Nine Months Ended September 30	
	2014	2013	2014	2013
Net income (loss)	\$ 95.0	\$ 77.8	\$ 269.9	\$ (131.6)
Financing charges	27.2	23.9	66.1	70.1
Current income tax expense	17.4	14.1	47.5	42.2
Deferred income tax expense	10.4	4.2	36.3	16.5
Depreciation and amortization	36.5	31.8	103.1	94.1
EBITDA	186.5	151.8	522.9	91.3
(Gain) loss on disposal of assets	(3.3)	-	(5.0)	1.7
Non-cash financing charges	(1.6)	(1.3)	(4.5)	(4.3)
Non-cash expense	2.4	2.6	1.3	1.0
Unrealized change in fair value of derivative financial instruments	-	6.9	(1.3)	7.8
General partner internalization	-	-	-	348.6
Adjusted EBITDA	\$ 184.0	\$ 160.0	\$ 513.4	\$ 446.1
Less adjusted EBITDA attributable to non-controlling interest	(4.3)	(3.3)	(12.4)	(8.9)
Adjusted EBITDA attributable to shareholders	\$ 179.7	\$ 156.7	\$ 501.0	\$ 437.2

**Enterprise value** is calculated by multiplying the period-end closing common share price by the total number of common shares outstanding and adding total debt (excluding discounts and debt transaction costs). This measure, in combination with other measures, is used by the investment community to assess the overall market value of the business. Enterprise value is calculated as follows:

	September 30 2014	December 31 2013
<i>(millions, except per share amounts)</i>		
Closing share price	\$ 36.35	\$ 25.83
Total closing number of common shares	325.4	306.8
	11,827.3	7,924.6
Total debt	4,396.3	3,960.8
Enterprise value	\$ 16,223.6	\$ 11,885.4

**Growth capital expenditures** are generally defined as expenditures which incrementally increase cash flow or earnings potential of assets, expand the capacity of current operations or significantly extend the life of existing assets. This measure is used by the investment community to assess the extent of discretionary capital spending.

**Sustaining capital expenditures** are generally defined as expenditures which support and/or maintain the current capacity, cash flow or earnings potential of existing assets without the associated benefits characteristic of growth capital expenditures. This measure is used by the investment community to assess the extent of non-discretionary capital spending.

	Three Months Ended September 30			
			2014	2013
<i>(millions)</i>	Growth	Sustaining	Total	Total
Oil sands transportation	\$ 239.8	\$ 0.3	\$ 240.1	\$ 555.5
Conventional oil pipelines	12.7	1.9	14.6	4.5
NGL extraction	1.3	1.3	2.6	6.5
Bulk liquid storage	2.5	5.9	8.4	5.8
Corporate	-	2.6	2.6	1.2
Capital expenditures	\$ 256.3	\$ 12.0	\$ 268.3	\$ 573.5
Capital expenditures funded by Inter Pipeline <sup>(1)</sup>	\$ 241.5	\$ 11.9	\$ 253.4	\$ 571.1

	Nine Months Ended September 30			
			2014	2013
<i>(millions)</i>	Growth	Sustaining	Total	Total
Oil sands transportation	\$ 1,004.7	\$ 0.6	\$ 1,005.3	\$ 1,320.1
Conventional oil pipelines	27.3	3.4	30.7	9.9
NGL extraction	5.0	3.1	8.1	30.2
Bulk liquid storage	7.8	15.8	23.6	23.5
Corporate	-	5.5	5.5	4.9
Capital expenditures	\$ 1,044.8	\$ 28.4	\$ 1,073.2	\$ 1,388.6
Capital expenditures funded by Inter Pipeline <sup>(1)</sup>	\$ 995.7	\$ 28.3	\$ 1,024.0	\$ 1,382.6

(1) Capital expenditures funded by Inter Pipeline exclude the 15% non-controlling interest in Cold Lake.

**Normalized net income** is calculated as net income (loss) from the comparative periods in 2013 excluding the one-time non-cash general partner internalization expense of \$348.6 million. This measure is used by the investment community to better gauge the change in net income after excluding the large one-time charge.

**Interest coverage** is calculated as net income (loss) attributable to shareholders plus income taxes, and borrowing costs, divided by the sum of borrowing costs, capitalized borrowing costs and any retirement of obligations. This measure is used by the investment community to determine the ease with which borrowing costs are satisfied.

**Payout ratio** is calculated by expressing dividends declared to shareholders for the period as a percentage of funds from operations attributable to shareholders. This measure, in combination with other measures, is used by the investment community to assess the sustainability of the current dividends.

**Total debt to total capitalization** is calculated by dividing the sum of total debt including demand facilities and excluding discounts and debt transaction costs by total capitalization. Total capitalization includes the sum of total debt (as above) and shareholders' equity. This measure in combination with other measures, are used by the investment community to assess the financial strength of the entity.

### Additional GAAP Financial Measures

The following additional GAAP financial measures are provided to assist investors with their evaluation of Inter Pipeline, including their assessment of its ability to generate cash and fund monthly dividends. Management considers these additional GAAP financial measures to be important indicators in assessing its performance.

**Funds from operations** are reconciled from the components of net income as noted below. Funds from operations is expressed before changes in non-cash working capital, see the **DIVIDENDS TO SHAREHOLDERS** section of this report for further discussion. Funds from operations per share are calculated on a weighted average basis using basic common shares outstanding during the period. These measures, together with other measures, are used by the investment community to assess the source, sustainability and cash available for dividends.

<i>(millions)</i>	Three Months Ended		Nine Months Ended	
	September 30		September 30	
	2014	2013	2014	2013
Net income (loss)	\$ 95.0	\$ 77.8	\$ 269.9	\$ (131.6)
Depreciation and amortization	36.5	31.8	103.1	94.1
(Gain) loss on disposal of assets	(3.3)	-	(5.0)	1.7
Non-cash expense	2.4	2.6	1.3	1.0
Unrealized change in fair value of derivative financial instruments	-	6.9	(1.3)	7.8
Deferred income tax expense	10.4	4.2	36.3	16.5
General partner internalization	-	-	-	348.6
Funds from operations	141.0	123.3	404.3	338.1
Less funds from operations attributable to non-controlling interest	(4.3)	(3.3)	(12.4)	(8.9)
Funds from operations attributable to shareholders	\$ 136.7	\$ 120.0	\$ 391.9	\$ 329.2
Funds from operations	\$ 141.0	\$ 123.3	\$ 404.3	\$ 338.1
Total interest less capitalized interest	25.6	22.6	61.6	65.8
Current income tax expense	17.4	14.1	47.5	42.2
Adjusted EBITDA	184.0	160.0	513.4	446.1
Less adjusted EBITDA attributable to non-controlling interest	(4.3)	(3.3)	(12.4)	(8.9)
Adjusted EBITDA attributable to shareholders	\$ 179.7	\$ 156.7	\$ 501.0	\$ 437.2

**Total recourse debt to capitalization** is calculated by dividing the sum of debt facilities outstanding with recourse to Inter Pipeline (excluding discounts and debt transaction costs) by total capitalization excluding outstanding debt facilities with no recourse to Inter Pipeline. This measure in combination with other measures, are used by the investment community to assess the financial strength of the entity.

### **ADDITIONAL INFORMATION**

Additional information relating to Inter Pipeline, including Inter Pipeline's Annual Information Form dated February 20, 2014 is available on SEDAR at [www.sedar.com](http://www.sedar.com).

The MD&A has been reviewed and approved by the Audit Committee and the Board of Directors of Inter Pipeline.

**Dated at Calgary, Alberta this 6th day of November, 2014.**